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ADVERTISING AGENCY COMPENSATION

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ADVERTISING AGENCY COMPENSATION

IN RELATION TO THE TOTAL COST OF ADVERTISING

By

JAMES W. YOUNG

Professor of Business History and Advertising
School of Business, The University of Chicago

THE UNIVERSITY OF CHICAGO PRESS
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Rec July 5, 1933

To the Committee:

Messrs.: R. R. Deupree
Lee W. Maxwell
A. W. Erickson

Part I of this report, in five sections, presents the facts as I have found them. So far as possible they are presented without comment so that each reader may draw from them his own conclusions. In all cases the source of the facts, or the method by which they were secured, is stated. In some cases points on which no factual evidence was available had to be stated in the terms of general experience and observation, but such cases are clearly indicated.

In gathering this material I received the co-operation of several hundred advertisers, publishers, and agencies, many of whom spent considerable time and effort on their contributions. This cordial response everywhere to requests for information is what has made this study possible, and for this help I am deeply grateful.

Part II contains the conclusions which I personally draw from the data. For these conclusions no one else is responsible. It is here that the greatest possibility of personal bias exists and they should be read with that fact in mind. I shall have no quarrel with whoever reaches different conclusions if he has examined the evidence on which mine rest.

My thanks are due to the Committee for their patience and for their unstinted help when it was called for.

Respectfully submitted,

JAMES W. YOUNG

33-39112

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PART I

SECTION I

THE NATIONAL ADVERTISING STRUCTURE

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SECTION I

THE NATIONAL ADVERTISING STRUCTURE

Around the advertising agency, and the commission method of compensating it, there has grown up what may be described as the national advertising structure. It is this structure and the interrelations of its parts which are examined in this report. It therefore seems desirable, at the start, to get clearly in view what this field of business embraces and what it consists of, in order to exhibit the nature and totality of the interests involved.

THE ADVERTISING AGENCY

The work of an advertising agency as described in the Agency Service Standards of the American Association of Advertising Agencies is as follows:

Agency Service consists of interpreting to the public, or to that part of it which it is desired to reach, the advantages of a product or service.

Interpreting to the public the advantages of a product or service is based upon:

1. A study of the product or service in order to determine the advantages and disadvantages inherent in the product itself, and in its relation to competition.
2. An analysis of the present and potential market for which the product or service is adapted:
   As to location
   As to extent of possible sale
   As to season
   As to trade and economic conditions
   As to nature and amount of competition
3. A knowledge of the factors of distribution and sales and their methods of operation.
4. A knowledge of all the available media and means which can profitably be used to carry the interpretation of the product or service to consumer, wholesaler, dealer, contractor, or other factor.

This knowledge covers:

Character	
Influence	
Circulation	Quantity Quality Location
Physical Requirements	
Costs	

Acting on the study, analysis and knowledge as explained in the preceding paragraphs, recommendations are made and the following procedure ensues:

5. Formulation of a definite plan.
6. Execution of this plan:
   a) Writing, designing, illustrating of advertisements, or other appropriate forms of the message.
   b) Contracting for the space or other means of advertising.
   c) The proper incorporation of the message in mechanical form and forwarding it with proper instructions for the fulfillment of the contract.
   d) Checking and verifying of insertions, display or other means used.
   e) The auditing, billing and paying for the service, space and preparation.
7. Cooperation with the sales work, to insure the greatest effect from advertising.

The service thus described is that rendered by advertising agencies to advertisers. In rendering that part of it which involves the buying of advertising material and space for its advertiser customers, and in the employment of personnel and facilities, the advertising agency uses and risks its own capital. When it places an order it assumes the obligation to pay and the risk that it can, in turn, collect from the advertiser.

Thus the advertising agency renders service primarily to the advertiser. It is from advertisers that it must seek patronage. But in furnishing a service which facilitates and encourages the use of advertising, and in assuming the credit risk with advertisers, the agency also renders important services to publishers.[1] There are, therefore, two ways in which an advertising agency may seek compensation for the work it does and the risk it incurs. It may make a charge to the advertiser in fee or other form; or it may, on some kinds of advertising and under certain conditions, secure from most publishers a commission or trade discount, usually of 15 per cent, on the business which it sends to publishers.

[1] Throughout this report the word "publisher" is used to denote the owner of any kind of advertising medium—the man who gives publication to the advertising message in any form.

Some small advertising agencies secure their compensation wholly and directly from advertisers. Most agencies secure part of their compensation in this way. If, however, the advertising agency should wish to secure its compensation, in whole or in part, in the form of a commission on the business it sends to publishers, it must first seek "recognition" from these publishers. In some cases, where no commission is allowed by the publisher, it must still seek recognition in order to establish credit.

AGENCY RECOGNITION

This matter of publishers' recognition of advertising agencies is at the heart of what has been called here "the national advertising structure." Therefore any adequate understanding of the structure must include an understanding of the processes of recognition.

The power to grant or withhold this recognition rests in each individual publisher, so far as his own medium is concerned. He may give or refuse recognition to an agency candidate as he pleases, and on his own terms. Thus, an agency may secure recognition enabling it to receive commissions from one publication and not secure it from another, or from one class of publications and not from another, even though both publications and classes of publications have a policy of recognizing agencies and paying them commissions.

While each medium owner has this power, and while actually he gives recognition on his own responsibility, in practice his decision to recognize or not to recognize is, to a large extent, made for him. It is made by the forces of competition between publishers and, more specifically, by certain trade bodies to which publishers look for guidance in their decisions.

The standards commonly set forth as those by which a publisher should judge an agency applicant for recognition are essentially these:

First, is it a *bona fide* agency, that is, is it free from control by any advertiser or any competing medium owner?

Second, has it the financial capacity to meet the obligations it proposes to incur with publishers?

Third, has its personnel the advertising and business capacity wisely to serve advertisers?

For each one of the thousands of publishers over the country to individually investigate every agency applicant for recognition by the above standards, would be wasteful if not impossible. This is particularly true for newspaper publishers. Hence we find there has been evolved by publishers certain machinery to do this work for them. This machinery is found principally in the publishers' associations. Chief among these are:

The American Newspaper Publishers' Association, with a membership embracing some 500 of the leading daily newspapers.

The Southern Newspaper Publishers' Association, with a membership of daily papers mostly in the territory south of the Ohio and Potomac rivers and east of the Mississippi River.

The Periodical Publishers' Association of America, composed of a number of leading magazine publishers.

The Agricultural Publishers' Association, composed of publishers of the principal national and state farm journals.

The Associated Business Papers, with 116 member papers, only 55 of which pay agency commissions, but all of which require credit information as to agencies.

In addition to these major associations there are numerous other factors in the recognition process. In the newspaper field there are various local and regional publishers' associations which pass on the fitness of agencies whose business is territorially limited.

There are associations, such as the Newspaper Representatives' Association of Chicago, composed of firms and individuals who represent, as national advertising solicitors, one or more newspapers. These newspaper representatives sometimes bill and collect from agencies, and guarantee agency credit to their publishers, and in such cases it is they, rather than publishers, who actually extend recognition.

In the field of outdoor advertising, membership by an agency in the National Outdoor Bureau, owned by its 200-odd agency members, secures the equivalent of recognition. Or an agency may secure recognition direct from outdoor plant owners under certain conditions, one of which is securing the approval of the Outdoor Advertising Association of America.

In the radio broadcasting field there is as yet no central recognizing body. Recognition is given by the network companies and by

individual stations, usually on the basis of the agency's already being "recognized" by one of the major publishers' bodies listed above.

Publishers not members of any of the leading associations follow these associations closely in extending individual recognition. They seldom refuse recognition to an agency already "recognized" by the association in their field, but they often recognize agencies which, for one reason or another, have not secured association "recognition."

Most conspicuous among the publishers whose recognition procedure operates independently of any association, and whose recognition also has influence on the decisions of other publishers, is the Curtis Publishing Company. Recognition by this company involves an actual contractual relationship between publisher and agent. (See Appendix for copy of Curtis contract.) The development of the Curtis contract, as described in the next chapter, has been a major influence in establishing the present publisher-agency relationships.

Numerous other advertising mediums, not represented above, such as some street railway and bus companies, theater program publishers, moving picture producers, skywriters, etc., allow commissions to "recognized" agencies. This term usually means recognized by one of the five leading associations first mentioned; or by some local association; or by the Curtis Publishing Company. These are the controlling factors in the majority of all cases of recognition, although there are many agencies, which are recognized by individual publishers here and there, which are not "recognized" by any of the leading publishers' associations.

THE RECOGNITION PROCEDURE

As representative of the procedure by which recognition is secured we may take that of the Periodical Publishers' Association of America.

The principles upon which this association bases its recommendations for recognition are stated in a printed folder, as follows:

PRINCIPLES OF AGENCY RECOMMENDATION

PERIODICAL PUBLISHERS' ASSOCIATION OF AMERICA

The publisher looks on the agency as a combination salesman and technical service engineer, who shall create and develop advertising by enhancing its value

to the advertiser. For this service the publisher pays a commission to the agent, having first determined that the agent is qualified and eligible to such recognition.

To aid our members, and any others interested, in this determination, the Periodical Publishers' Association investigates agencies and grants or declines to grant an application for inclusion in our list of recommended agents and agencies. In acting upon such application the Association is actuated by a desire to protect the advertising field from any influx of mediocrity or of questionable practices.

The following principles govern the granting of recommendation:

1. Demonstrated Ability:
   The principals as individuals, and the agency as an organization, must have demonstrated their ability to develop and serve national advertisers (advertisers using national media). The individual applicant must have satisfied the Association of his or its integrity and financial ability to meet its just obligations.
2. Financial Stability:
   To that end the agency must furnish evidence of its financial stability. It must have resources adequate to its needs and have business practices that are sound.
3. Clean Competition:
   The agency must have secured its clients without injustice to previous agency connections and must be clean in competition.
4. Ethical Practices:
   The agency must be operating according to ethical business standards, namely:
   a) operating primarily in the agency business;
   b) translating the publishers' commissions into service to the advertiser without direct or indirect rebating;
   c) and without secret understandings with the advertiser in contravention of the spirit of the recognition given by the publisher to the agent.
5. Unprejudiced Judge of Media:
   The agency must not be prejudiced in its judgment of media by investment or interest in any particular form of advertising.
6. Cooperative in Practice:
   The agent must be willing to establish a continuing cooperation with the Association—ready to give necessary, proper and accurate information as to his or its financial condition and methods of operation.
7. Operating in National Field:
   The agency must be operating in the field of advertising represented by this Association.

Agencies meeting these conditions will be welcome to our recommendation. Others must be declined for the protection of those whom we do recommend.

The principles which govern the granting of recommendations are always operative for determining the continuation of such recommendation.

A new agency applicant to this Association receives a copy of the folder quoted above and with it a four-page blank (see Appendix) calling for a complete financial, operating, and business history report on the applicant's business. This report the applicant must fill in, and sign and send to the Association's offices, together with the following signed Declaration:

Date:

DECLARATION MADE BY THE UNDERSIGNED AS AN INDUCEMENT FOR THE LISTING OR CONTINUANCE, OF THE NAME OF THE UNDERSIGNED ON AN EXISTING LIST OF AGENTS RECOMMENDED BY PERIODICAL PUBLISHERS' ASSOCIATION OF AMERICA

To Periodical Publishers' Association of America:

We, the undersigned, being the officers and a majority of the stockholders of the , a corporation engaged in the business of soliciting advertisements from national advertisers, make the following statement of fact, as an inducement to Periodical Publishers' Association of America to place or continue the name of said corporation upon its list of recommended advertising agencies.

No one of the present or prospective clients owns any part or has any interest of any kind in the undersigned corporation, nor does any such client hold this agency, or any of its officers or stockholders, under any obligation of any kind, nor is there any special understanding of any kind between any client and this agency or any of its officers, stockholders, employes or solicitors in contravention of the usual arrangements as defined below. This applies to all clients, regardless of the type of medium used.

The usual arrangements are understood to be the billing of and collecting from the client the regularly announced card advertising rates of the publisher, without direct or indirect rebating of the commission allowed the agency by the publisher or any part thereof, and the rendering of full agency service to the client.

Any exceptions to the foregoing statements are fully explained by the letter attached hereto.

You are at liberty and shall at all times have the right to satisfy yourselves that we are carrying out and performing all of our contracts with our clients and will continue to do so, in strict accordance with such usual understanding.

Should any case arise in the future that might be regarded as contrary to the

spirit, intent or purpose of this statement, the undersigned will promptly advise you thereof.

The attached statement of the financial condition of the undersigned is a complete and truthful statement and accurately reflects its financial condition as of the date of its submission to you.

	% of Ownership
President	
Vice President	
Secretary	
Treasurer	

If, upon the basis of the information thus secured from the applicant, and supplemented by such independent investigation as may be called for, the Periodical Publishers' Association decides that the applicant is worthy of recognition, it so reports to its members. Such members as accept the recommendation individually notify the applicant. With this particular association the recommendation is usually probationary for one year.

The association recommends; the individual publisher recognizes. But so nearly is the recommendation of such associations equivalent to recognition that the Periodical Publishers' Association itself asks, on its blank sent to applicants: "Have you *recognition* from the American Newspaper Publishers' Association (etc.)?"

On the other hand, failure of a publishers' association to recommend may not bar an agency from recognition by an individual publisher. Some agencies not having business of a nature justifying inclusion in the recommended list of a national association may be considered worthy of recognition by an individual publisher.[2] Thus one leading big city newspaper in 1932 had 630 agencies on its recognized list, and only 56 per cent of these had been recommended for recognition by the American Newspaper Publishers' Association, of which this paper is a member. This paper is exceptional in the high percentage (44 per cent) of non-association-recommended agencies on its list, but most publishers recognize some agencies not on their association lists.

[2] Not true of members of Periodical Publishers' Association.

DETERMINING FACTORS IN RECOGNITION

An agency applicant for recognition does not appear before one of the recognizing bodies, formally, until it has business in hand to "place." Indeed, evidence of such business pending for the particular publication or group of publications is required for consideration of an application. Likewise, an agency which has had "recognition" may be dropped from an association's recommended list for no other reason than that it has ceased to have business for that group of publications. Therefore, an order in hand is the first factor in recognition.

The next, and most tangible, factor is the agency's ability to pay for the orders it proposes to place. This factor presents a continuing responsibility to the recognizing organization, and a constant preoccupation with credit problems is the most noticeable feature of recognition activities.

Beyond these two basic considerations—of orders and the ability to pay for them—recognition standards, and adherence to them, vary.

It is a requirement of every major recognizing body, and of publishers generally, that the applicant for recognition be a bona fide agency: that is, that it be independent of any financial interest of any advertiser or publisher (including, in some cases, printers).

It is further required that the applicant agree not to rebate to the advertiser, either directly or indirectly, any part of the commissions paid him.

Publishers and their recognizing bodies appear firmly convinced of the importance to them of maintaining these bona fide requirements for recognition. Publishers' associations have repeatedly passed resolutions supporting such requirements. Officials of "recognizing" bodies make diligent efforts to see that such requirements are met and maintained. It is no longer possible for an openly conducted "house agency," owned by one advertiser, to secure the easy recognition which was possible in times past.

But violations of the bona fides are difficult to prove. Hence, if the applicant for recognition chooses falsely to sign such a statement as the "Declaration" of the Periodical Publishers' Association shown on page 9, thereby exposing itself to the charge of obtaining credit

under false pretense, it may, and sometimes does, secure and maintain recognition in spite of practices contrary to publishers' requirements. Practically all publishers and publishing bodies do, in fact, carry upon their lists of recognized agencies today some agencies of whose bona fides there is doubt. The extent to which this is true will be indicated by the estimate of variations in agency charges shown in a later section of this report.

Another factor which publishers and their recognizing bodies generally include among their recognition standards is that of the agency's competency to serve the advertiser. Here the publisher finds himself seriously handicapped, in spite of a conviction that the competency of agencies is an important factor in his business. No basis for measuring such competency exists, except in individual judgments. And any attempt to apply such judgments is thwarted by the competitive pressure among publishers: if one publisher fails to recognize the applicant on such grounds some competing publisher may not adhere to them, and the potential business will be lost. Some sifting of agency applicants takes place on grounds of competency, but in some recognizing bodies such standards are practically non-operative and in others have been abandoned altogether.

Thus it appears that, in practice, recognition becomes a matter of nomination of the agency applicant by the advertiser (through the act of giving the agency his business to place), with veto power on that nomination by the publisher. The use of this veto power is restrained to some extent by competition among publishers themselves. By and large, the nomination carries if the applicant can satisfy the publishers' credit requirements and if it presents no flagrant violation of the bona fides. Advertisers, not publishers, are originally responsible for selecting who shall be advertising agents. In particular, such standards of competency as are set are largely those which some advertiser has accepted.

THE NUMBER OF ADVERTISING AGENCIES

There are estimated to be some 2,000 local and national advertising agencies operating within the United States. The number recognized by some one or more individual publishers is impossible to determine accurately, but it undoubtedly runs into the hundreds.

The number recognized by the leading publishers' bodies previously named is given in Table I.[3]

TABLE I

American Newspaper Publishers' Association	470
Periodical Publishers' Association	362
Agricultural Publishers' Association	637
Associated Business Papers	259
Southern Newspaper Publishers' Association	65

119

The number having recognition from all of the first four publishers' associations listed above is 119. The number having recognition from some one or more of the five associations listed above is 810.

NUMBER OF ADVERTISERS SERVED BY THESE AGENCIES

As listed in the *Agency List of the Standard Advertising Register* for August, 1932, the advertising agencies recognized by these five major publishing bodies served the numbers of advertisers given in Table II.

TABLE II

	Advertisers
Agencies having recognition from all of the first four of these publishing bodies (A.N.P.A., P.P.A., A.P.A., A.B.P.) served	3,897
Additional agencies having recognition from any three of the above four bodies served	5,379
Additional agencies having recognition from any two of the above four bodies served	3,885
Additional agencies having only A.N.P.A. recognition served	761
Additional agencies having only P.P.A. recognition served	295
Additional agencies having only A.P.A. recognition served	1,693
Additional agencies having only A.B.P. recognition served	514
Additional agencies having only S.N.P.A. recognition served	149
Total advertisers served (not including those served by agencies having individual publisher's recognition only)	16,573

[3] These figures change constantly as agencies merge, fail, divide, etc. The figures given are for agencies so listed in the *Agency List of the Standard Advertising Register* for August, 1932.

NUMBER OF ADVERTISING MEDIUMS

The number of advertising mediums, in the principal classifications, allowing an advertising agency commission, and therefore presumably receiving some percentage of their advertising revenue through agencies, is 17,639.[4] These mediums are given in Table III.

TABLE III

Daily newspapers (in more than 1,600 towns)	1,908
General magazines	667
Business papers	1,252
Agricultural papers	240
Negro papers	111
Religious papers	263
Foreign-language papers	153
Outdoor plant operators (with plants in more than 16,000 towns)	1,450
Radio stations	490
Country newspapers	11,105
	17,639

The reliance of these different classes of mediums upon advertising agencies for advertising revenue varies.

In the leading national magazines over 99 per cent of the advertising revenue comes through agencies.

In daily newspapers from 15 per cent to 30 per cent of the total advertising revenue comes from national advertising, and more than 95 per cent of this comes through agencies.

For national radio chains all of the advertising revenue comes from national advertising, and all of this comes through agencies.

For outdoor plants 85 per cent of the advertising revenue comes from national advertising and over 75 per cent comes through agencies. (Estimate of National Outdoor Advertising Bureau.)

TOTAL VOLUME OF BUSINESS

In the year 1930 the total volume of business done by 440 agencies recognized by one of the principal publishing bodies was approximately $562,740,000.[5] As there were, as previously stated, 810 agencies recognized by some one of the five leading publishing bodies in 1932, and probably somewhat more than this in 1930, there were probably at least 370 agencies in addition to the above 440 doing some volume of national business in 1930. If these 370 agencies are allowed an average national business of $100,000 each, or $37,000,000, the total volume of business done by all agencies having recognition from some one or more of the leading publishing bodies would have been $599,740,000. A figure of $600,000,000 for business done through agencies in 1930 would appear to be a conservative estimate.

[4] Figures compiled from *Standard Rate and Data Service*, September, 1932, except those for outdoor plant operators, furnished by National Outdoor Advertising Bureau; and country newspapers from *Ayer's Directory* for *1933*.

DISTRIBUTION OF VOLUME, BY AGENCIES

How the 440 agencies above mentioned were classified by volume of business done individually is shown in Table IV.

TABLE IV

CLASSIFICATION BY VOLUME OF BUSINESS OF 440 AGENCIES RECOGNIZED IN 1930 BY ONE LEADING PUBLISHERS' ORGANIZATION

Agency Volume of Business	Number of Agencies
Under $150,000	70
$ 150,000 to $ 250,000	78
250,000 " 500,000	100
500,000 " 750,000	63
750,000 " 1,000,000	30
1,000,000 " 2,000,000	48 100.
2,000,000 " 3,000,000	14
3,000,000 " 5,000,000	17
5,000,000 " 7,500,000	8
7,500,000 " 10,000,000	4
10,000,000 " 15,000,000	1
15,000,000 " 20,000,000	1
$20,000,000 and over	6 120.
Total	440

Another view of the distribution of volume by agencies may be had from Table V. This table presents the combined advertising

[5] Based upon a compilation by the publishers' association of actual volume figures as reported to them, plus estimates of volume for agencies not reporting their volume figures.

revenues through agencies, for the years 1922–31, inclusive, of the following national publications:

The American Magazine
Collier's
Cosmopolitan Magazine
The Country Gentleman
Delineator (and *Designer* before 1927)
Good Housekeeping
Ladies' Home Journal
McCall's Magazine
Saturday Evening Post
Woman's Home Companion

TABLE V

COMBINED VOLUME OF BUSINESS RECEIVED FROM AGENCIES BY 10 NATIONAL PUBLICATIONS* 1922–31, INCLUSIVE

Years	Total Volume of Business from Agencies	Number of Agencies Furnishing Volume	Per Cent of Volume from First 10 Per Cent of Agencies	Per Cent of Volume from First 25 Per Cent of Agencies	Per Cent of Volume from First 50 Per Cent of Agencies	Per Cent of Volume from 10 Leading Agencies	Per Cent of Volume from 25 Leading Agencies
1922..	$ 59,835,936	494	72.8	91.9	98.8	37.8	57.8
1923..	74,664,450	554	73.5	91.8	98.8	35.9	57.0
1924..	84,216,222	561	73.5	92.0	98.6	36.4	55.0
1925..	96,228,549	565	73.6	91.5	98.7	36.4	55.3
1926..	104,977,899	577	75.5	91.8	98.7	36.7	56.7
1927..	111,656,653	568	76.4	92.0	98.7	39.0	58.2
1928..	111,899,838	573	77.0	92.0	98.7	41.8	61.0
1929..	120,935,660	569	77.7	92.2	98.7	43.6	62.5
1930..	119,690,114	553	80.4	93.0	99.0	49.4	67.8
1931..	98,728,406	494	80.1	93.8	99.0	50.4	68.3

* *The American Magazine, Collier's, Cosmopolitan Magazine, The Country Gentleman, Delineator* (and *Designer* before 1927), *Good Housekeeping, Ladies' Home Journal, McCall's Magazine, Saturday Evening Post, Woman's Home Companion.*

Total number of agencies from which these publications received some business throughout 10-year period..... 1,335
Increase in total volume 1922–31..... 65 per cent
Increase in volume of 10 leading agencies..... 120 per cent
Increase in volume of 25 leading agencies..... 95 per cent

Table V shows: (1) That during the ten years, 1922–31 inclusive, these publications did business with 1,335 individual agencies. (2) That the highest number of agencies with which business was done in any one year was (1926) 577. (3) That the number of agencies

with which business was done at the beginning and the end of the ten-year period was the same, namely, 494. (4) That in each of the ten years, from 98.6 per cent to 99.0 per cent of the total volume came from 50 per cent of the agencies. (5) That the 1931 total volume of business done represented an increase of 65 per cent over the 1922 total volume, without any increase in the number of agencies. (6) That the volume from the 10 leading agencies of 1931 compared with that from the 10 leading agencies of 1922 represents an increase of 120 per cent. (7) That the volume from the 25 leading agencies of 1931 compared with that of the 25 leading agencies of 1922 represents an increase of 95 per cent.

DISTRIBUTION OF VOLUME, BY ADVERTISERS

Table VI shows how the advertising volume in 30 leading magazines, for the ten years 1921–30 inclusive, was distributed among advertisers with different size expenditures above $10,000. It shows: (1) that advertisers expending between $10,000 and $100,000 in these publications furnished a dollar volume which did not vary widely throughout the ten-year period, but that the percentage of total volume from this group decreased from 43.8 per cent in 1921 to 21.1 per cent in 1930; (2) that in number of advertisers those expending less than $100,000 represented 83.4 per cent of the total in 1921 and 66.9 per cent in 1930; (3) that advertisers expending between $100,000 and $1,000,000 increased as a percentage of total volume from 51.3 in 1921 to 55.9 in 1930, and as a percentage of total advertisers increased from 16.3 in 1921 to 25.0 in 1930; (4) that advertisers expending over $1,000,000 increased as a percentage of total volume from 4.9 in 1921 to 23.0 in 1930, and as a percentage of total advertisers increased from 0.30 in 1921 to 1.50 in 1930.

TABLE VI

Ten-Year Distribution of Advertising Volume in 30 Leading National Non-farm Magazines, by Size of Advertisers' Expenditures (Includes only Advertisers spending $10,000 or more)

Year	Total Volume	Total Number of Advertisers	Advertisers Spending $10,000 to $50,000			Advertisers Spending $50,000 to $100,000			Advertisers Spending $100,000 to $500,000			Advertisers Spending $500,000 to $1,000,000			Advertisers Spending $1,000,000 to $3,000,000			Advertisers Spending Over $3,000,000		
			Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers	Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers	Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers	Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers	Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers	Volume (in Dollars)	Per Cent Total Volume	Per Cent Total Advertisers
1921.....	$ 75,610,476	1,090	$16,786,169	22.2	61.8	$16,348,045	21.6	21.6	$32,251,335	42.7	15.3	$ 6,487,617	8.6	1.0	$ 3,737,310	4.9	0.30	.....	.....	.....
1922.....	76,801,158	1,080	16,748,519	21.8	62.4	15,009,030	19.5	19.8	34,447,388	44.9	16.5	5,888,050	7.7	0.9	4,698,171	6.1	0.40	.....	.....	.....
1923.....	96,464,730	1,241	18,413,319	19.1	59.7	18,411,652	19.1	20.6	44,956,258	46.6	18.2	9,619,107	9.9	1.2	5,064,394	5.3	0.30	.....	.....	.....
1924.....	109,267,367	1,279	18,421,479	16.9	58.5	17,506,190	16.0	19.3	47,953,082	43.9	19.6	16,064,671	14.7	2.0	9,321,945	8.5	0.55	.....	.....	.....
1925.....	122,138,849	1,348	19,129,007	15.5	57.8	17,651,035	14.3	18.3	58,133,115	48.1	21.2	17,198,547	13.9	1.9	10,027,145	8.1	0.45	.....	.....	.....
1926.....	138,841,267	1,383	18,728,962	13.5	54.3	20,945,286	15.1	21.6	59,875,129	43.1	20.1	25,460,900	18.3	2.7	13,830,990	9.9	0.65	.....	.....	.....
1927.....	145,539,616	1,409	19,199,838	13.2	55.2	19,650,210	13.5	19.7	61,657,636	42.4	21.5	29,125,415	20.0	2.9	15,906,517	10.9	0.78	.....	.....	.....
1928.....	140,075,062	1,395	18,619,008	13.3	55.7	16,795,880	12.0	19.0	58,989,174	42.1	21.2	34,005,618	24.3	3.5	11,665,382	8.3	0.64	.....	.....	.....
1929.....	154,666,040	1,393	18,165,445	11.8	53.9	19,006,972	12.3	19.2	64,089,961	41.4	22.8	29,189,921	18.9	3.1	20,610,335	13.3	1.00	$ 3,603,406	2.3	0.07
1930.....	156,527,820	1,315	17,731,305	11.3	57.1	15,376,233	9.8	16.5	60,662,191	38.8	22.0	26,738,339	17.1	3.0	25,781,766	16.5	1.30	10,237,986	6.5	0.20

Note.—Advertisers with expenditures less than $10,000 were omitted from this tabulation because complete figures for these for all years were not available. Some indication of the place of these smaller advertisers in the total may be gotten from the 1930 figures. In that year 2,689 advertisers expending less than $10,000 gave a total additional volume of $5,629,022.

As this table includes only advertisers who spent $10,000 or more in the current year, regardless of their past expenditures, the total volume figures will be found to be somewhat less than those given in the table on page 100, which includes advertisers who spent $10,000 or more in any of the preceding five years, even though in any given year their expenditure fell below $10,000.

PART I

SECTION II

HOW THE ADVERTISING AGENCY DEVELOPED

CONTENTS

The Agency's Beginning as a Publisher's Direct Agent

Its Brokerage Period

Its Wholesaling Period

Its Price-Stabilization Period

The Rise of the Service Agency

The Causes of Change in the Agency Structure, and the Results Therefrom

An Outline History of Criticism of the Agency Structure; Its Sources and Nature

SECTION II

HOW THE ADVERTISING AGENCY DEVELOPED

The advertising agency method of handling national advertising in this country has grown up over a period of some ninety years. It has, therefore, a considerable history of growth, experiment, and change, in keeping with changing business conditions. To understand the place of the agency in the national advertising structure today it is necessary to understand its antecedents.

In advertising literature the agent is often described as having been originally a broker or wholesaler of advertising space. This is not quite accurate.

The first advertising agent of whom we have any clear record in this country was one Volney B. Palmer. He appears as definitely established in that capacity, probably in Philadelphia, in 1841.[1] By 1849 he had offices in New York, Philadelphia, Boston, and Baltimore.

When Palmer established his business, and for long afterward, no such thing as a published list or directory of newspapers existed. Any advertiser who wanted to announce his wares beyond the confines of his immediate home territory had difficulty in learning even the names of papers at distant points.

Furthermore, even when the advertiser could learn where he might advertise he was still at sea as to advertising rates. Newspaper publishers were, for the most part, editors, not business men. They depended primarily on subscriptions for income. Even as important a paper as the *Boston Post* had no advertising solicitor as late as 1858. Advertising income was looked upon as so much "velvet." Hence advertising rates were highly flexible, and a good bargainer could always get a price advantage.

In these facts Palmer appears to have seen his opportunity for profit. He facilitated the use of advertising by furnishing the service

[1] "During 1841 Volney B. Palmer organized a newspaper advertising and subscription agency" (*Oswego Palladium*, July 24, 1846).

needed in his day, namely, a place where the seller could find the buyer, and the buyer could find the seller, and where the price to be paid could be ascertained or agreed upon. "The newspaper advertising agency of Mr. V. B. Palmer we look upon as just the thing," said the *Boston Chronotype* of October 16, 1846. "You have only to step into his office with the notice which you wish to have given the whole people of the United States, and it is done. Mr. Palmer has the machinery all ready to do it."

Palmer conducted his business as the actual agent for those publishers who would recognize him as such, even insisting where he could that the publisher recognize him as *sole* agent and so state at the head of his editorial column.

In one of his announcements (1849) he stated of himself: "He is agent for the best papers of every section of the whole country. He is empowered by the proprietors to make contracts and give receipts. The same prices only are charged to advertisers as are exacted by *his principals, the publishers* [italics mine]."

And the *Milwaukee Sentinel and Gazette* said, on April 27, 1849: "Our country press throughout the state can do no better than to appoint Mr. Palmer as *their eastern agent* [italics mine]—he having the oldest newspaper agency, and being a prompt and responsible man."

As the publisher's direct agent then, Palmer made contracts and, it appears, ordinarily collected payment for them. But he assumed no credit liability: if the advertiser failed to pay Palmer, then Palmer did not pay the publisher. For his services on these terms, Palmer demanded and received from the publisher a commission of 25 per cent, plus the cost of all postage and stationery used in the transaction.

When we examine the newspapers previous to Palmer's day we find very little advertising other than local announcements. But in the "fabulous forties" the country was opening up, transportation was improving, and the manufacturers of the East—especially those of proprietary medicines—were reaching for the new markets. Palmer, the advertising agent, appears on the scene at almost the very beginning of national advertising. He facilitated the use of such advertising for advertisers and he brought a tangible increased in-

come to publishers, out of which they were willing to pay his commission of 25 per cent. Thus national advertising, the advertising agency, and the publisher's commission to the agent appear to have come into existence together.

Palmer was successful, and his success attracted the inevitable competition. This came first from the manager of the Boston office which Palmer had established, about 1848. This manager of Palmer's, having secured the confidence of customers, took Palmer's list of papers and prices—then the chief stock in trade—and set up for himself.

The advertising agency business has always been one which required a relatively small initial capital. Palmer seems to have foreseen in this fact an encouragement to competition, and to have made an effort to guard against it by claiming from the publishers exclusive representation rights. But when Palmer's Boston manager set up for himself the publishers encouraged him, presumably reasoning that two salesmen should produce more business than one.

Before long there were a number of agents in the field. As these agents had, by and large, identical papers in which to offer space, and little else to offer, price competition very quickly developed between them. The conditions of the day tended to put this price competition on the publisher's rate rather than on the agent's commission. The publisher's lack of any fixed idea about the value of his space made this inevitable. "When agents multiplied and competed with each other," says Rowell, "it soon became the thing to do to charge the advertiser as near the prices named on a rate card as it seemed likely he could be induced to pay, and then cut down the paper to as near nothing as it could be induced to accept."[2]

But as far as the publisher and agent relationship was concerned, the agent's commission remained a fixed element in the bargaining. The 25 per cent established by Palmer always came off the final price agreed on between agent and publisher. In time, however, the commission itself began to yield in the competitive price struggle between agents. Fifteen years after Palmer's competition began

[2] George P. Rowell, author of *Forty Years an Advertising Agent* (*1865–1905*). Many of the statements in the early part of this section are based on this book.

Rowell quotes an agent who "regretted that he came into the business too late, for no longer could the agent count upon the clean 25 per cent profit that had been possible in Palmer's day."

So the first cycle in the advertising agency business, running about twenty-five years, completed itself. The business had been established and was performing the functions first needed to facilitate the use of advertising. The agency commission had become a trade custom in the publishing business. But the functions and services of agencies had expanded hardly at all from Palmer's original ones of promoting the sale and facilitating the placing of advertising. Failure of the publishers to maintain any exclusive arrangements with agents, the resulting competition, and the instability of publishers' rates, had turned the agent from being an actual publisher's agent into being a broker, with a business based upon bargaining with both publisher and advertiser. The men who succeeded in it were of the trader type, who knew, as Rowell said, "which publishers were influenced by their rate cards and which were superior to any such implement for impairing their right to do what they chose." But so many had come into the business that the day of small profits had come. A new and more profitable method of conducting it had to be discovered before it became attractive to new men and yielded a margin for expansion in the agent's services.

This new method, ushering in the second stage of the advertising agency business, came from a young man in a Boston newspaper office, the George P. Rowell who has been previously quoted. He started in business as an advertising agent in 1865, with an idea which he believed would minimize competition.

Rowell conceived a plan of contracting with one hundred newspapers, mostly New England country weeklies, to sell him a column of space each week for a year. On such a contract, at that time enormous, he was able to bargain for a very low rate. This space he resold to advertisers in one-inch units, at a generous profit to himself but at a rate much below that which competing agents, buying in small units, had to ask for the same space. "An Inch of Space a Month in One Hundred Papers for One Hundred Dollars" was Rowell's selling slogan.

Rowell was an innovator but not completely so. He did not lose sight of the now traditional 25 per cent commission. It came in as a final element in his bargaining with publishers, to reduce still further the rate which his quantity proposal had established. And to the commission Rowell added two new elements and arguments for price reduction: a guaranty of payment whether the advertiser paid or not, and a discount for cash—3 per cent for payment within thirty days. These thereafter, equally with the commission, became a custom of the agency-publisher relationship.

Rowell's plan succeeded, and it put the advertising agency business back on a liberal profit basis. Starting with a capital of $2,000, Rowell made a profit of $6,000 on $28,000 of business the first year. Six years later, after he had developed lists of papers for every section of the country, he had assets exceeding $100,000,

Again success attracted competition. In Philadelphia, N. W. Ayer & Son developed a controlled list of religious papers. In New York, Carlton & Smith also brought forward a list of religious publications, as did Lord & Thomas in Chicago. Later, as successor to Carlton & Smith, came J. Walter Thompson, who, seeing the growing influence of the household magazines, developed exclusive contracts with his "List of Thirty" such publications and became the successful promoter of magazine advertising.

The arrangements of these agencies usually differed from Rowell's in that they controlled all the advertising space in the publications which they represented. They contracted to pay the publishers a lump sum annually and took over all the risk and management of the advertising columns.

Thus began, in the later sixties, the "wholesaling" period of the advertising agency business, during which the agent sought something exclusive to sell, bought the space in bulk at as low a price as possible, and "retailed" it at as high a price as possible. It was an idea which was to preoccupy the minds of agents for many years to come.

With agents thus focusing their attention on the sale of controlled space, it may be wondered how there remained any place for the older agency commission as such. Aside from its use in bargaining, various considerations contributed to keeping it alive. Even the

agent who had a controlled list to sell did not shut himself out from the possibility of handling business for publications whose space no agent controlled. At this period all advertising contracts were let on "estimates" from competing agents. In order to sell his own long-profit list the agent often had to be prepared to bid on and handle the space wanted in other publications by advertisers. Also good-will relationships between agents and advertisers, and geographical considerations, contributed to keeping the commission alive. If Lord & Thomas in Chicago had an advertiser for their religious papers who might also use space in J. Walter Thompson's list of magazines, Mr. Thompson might get the order with less trouble by seeking it through Lord & Thomas. In such cases the commission passed between agent and agent.

The forces which were to destroy this wholesaling period of the agency business came into sight when the first "special agent" appeared on the scene about 1875, and when N. W. Ayer & Son established their "Open Contract" at about the same time.

Publishers of the larger and better-managed newspapers had now begun to realize the growing value of national advertising, and some of them had made attempts to stabilize their rates. With many of the older agents having exclusive, long-profit lists, toward the sale of which they were biased, the publisher not on such a list was not adequately represented to the advertiser. A special agent, who would devote his whole time to soliciting for one, or at most a few, strong newspapers, was the logical result. After the appearance of these special agents the older agents came to be spoken of as "general agents."

Some of the exclusive and controlled space arrangements between publishers and general agents lasted a long time—down into the nineties. But as the volume of advertising grew, publisher after publisher discontinued these arrangements with general agents and the direct, special publisher's representative, on salary or commission, took over the selling of his space. By 1880 "the woods were full of them," said Rowell.

This appearance of the special agent had far-reaching effects on the agency business. It not only destroyed, eventually, the profit

in the controlled space idea; but, quite unconsciously to all concerned, it forced the older type of agent into the field where his great development was to take place. It drew the line between the agent who was to remain a special pleader and salesman of space for a particular publisher and the agent who was to become a salesman of advertising service and a buyer of space for the advertiser.

The Ayer contract drew the same line. Under it Mr. Ayer agreed to buy all space to the best of his ability, to give the advertiser the benefit of the lowest rate or inside price which he could secure, and to bill the advertiser at this net rate plus an agreed percentage for the Ayer services. This percentage varied, experimentally, in the beginning but was eventually stabilized at 15 per cent. The beginning of impartiality in the buying of advertising mediums first made its appearance in the advertising agency business in this Ayer contract.

But this idea of impartial buying made way slowly. In the agency business as a whole there was no clear demarcation between buyer and seller, or between special agent and general agent. Every general agent who had a controlled space proposition held on to it as long as he could, and put into it as much of an advertiser's appropriation as he could. Even after Mr. Ayer offered his "Open Contract" he retained his special interest in a group of religious publications. Both special and general agents solicited the same advertiser, sometimes one getting the order, sometimes the other, sometimes each getting part of it. And Rowell bewailed the fact that his greater impartiality in buying did not always prove profitable to the advertiser: the special agent, putting all the advertiser's money into big space in one publication, sometimes produced better results than Rowell did in spreading it through many publications.

When special agents first appeared, it seems to have been the publisher's expectation that, as far as his publication was concerned, the appointment of a special agent would eliminate the general agent. The traditional commission now went to the special agent. The special agent solicited the advertiser direct and did not hesitate to underbid the general agent if necessary. Thus grew up the so-called "direct advertiser," receiving from the special agent a lower rate than he could get from the general agent. A few of these direct advertisers have continued in some publications to the present day.

But the general agent had been acquiring assets. Though still primarily a buyer and seller of advertising space, he had bookkeeping and mechanical facilities useful to an advertiser in carrying out the details of an advertising program. Furthermore, the advertising of branded merchandise was still a relatively new and undeveloped business art. The general agent had a better opportunity to watch its workings than anybody else. His more extensive observations of the success or failure of different kinds of advertising in different publications began to make his judgment valuable to his customers. His advice on how to make advertising pay began to be one of his selling points.

So it was that the special agent, also, often found that his shortest way to an order was through the general agent, who already had the advertiser's business and confidence. This meant for the special agent a sharing of his commission with the general agent. Also, if the publisher insisted on all advertising coming through his special agent, as many did, this meant recognition for the general agent from the special rather than from the publisher. Hence, the part played in the recognition process by newspaper special representatives today. Hence, also, the continuance of the traditional commission to the general agent, but the beginning of a reduction in the size of it.

The liberal, protected profit which came back into the agency business through the introduction of controlled-space selling appears to have contributed to a marked expansion in both advertising and advertising service.

During this period the foundations were laid of many of the leading agencies of today. New conceptions of the possibilities of advertising and of the agency business made their appearance: in the Ayer contract; in J. Walter Thompson's persuasion of magazines to accept advertising; in Rowell's publication of the first directory of American newspapers, with an attempt to rate their hitherto unknown circulations.

But most of all, in this period the advertising agents became apostles of the doctrines that "it pays to advertise" and that "keeping everlastingly at it brings success." They began preaching these doctrines in the highways and byways of business, with marked results for themselves, for publishers, and for advertisers.

It appears to have been partly due to this promotion of the advertising idea that agencies entered the third major stage in their development, marked by the expansion of their service to include the preparation of "copy." Until about 1880 no agent seems to have considered this as a part of his business. The advertiser—who obviously should know more about his product than anybody else—wrote his own advertisements and sent them to the agents to be typed and "placed." Mr. Lord, of Lord & Thomas, is quoted[3] as saying that he was aghast when an advertiser first asked him to write his advertisements, and resented being asked to do the advertiser's work for him.

But in the process of making advertising converts it was discovered that the hesitating prospect often could be induced to take the plunge into strange advertising waters if he could see how his advertising would look. Presbrey suggests[4] that the publishers of the *Youth's Companion* taught the agents how to do this by their success in selling space through the submission of complete advertisements to prospects. It was a nuisance to the agent, there was nobody to do the work but the agency solicitor himself, but if "copy" would help sell space then copy he would produce. And if a package, a name, and a trade-mark were also needed to get a new advertiser started, then these, too, the agent would assist with or suggest.

At this stage we can see unfolding the point of view which brought every succeeding development in agency service. But it is not to be supposed that agents as a whole suddenly adopted some new philosophy about the nature of their business. All that they did was to develop a new form of service here and there, as competition forced it on them, or as some progressive or imaginative individual saw a sales opportunity. It was to take at least twenty-five years from the first appearance of agency copywriting to the full modern conception of agency service. The basic fact in the agency business during the eighties and nineties continued to be the instability of publishers' rates. As long as that condition existed the agent's salvation rested

[3] In a manuscript of *Recollections* by C. E. Raymond.

[4] Frank Presbrey, *The History and Development of Advertising*, p. 525.

on his buying ability. "If an agency of the period had attempted to sell expertness in copy and other service rendered by the modern agency, over its ability to obtain rates, it would have failed," says Presbrey.

Another fact with which the agent of this period had to live was that he could expect little or no protection from the publisher. If the advertiser was big enough to be of known good credit, the publisher or special agent had no objection to taking business from him direct instead of through a general agent, and, if pressed, to allowing such an advertiser the agent's commission. If the publishers showed any hesitation about taking business in this way after an agent had developed the advertiser, the device of a "house agency," owned by the advertiser, saved everybody's face. To the larger and more experienced advertisers the saving to be made by direct buying was often more attractive than the agent's embryonic creative service.

Hence while the agent as advertising counselor and creator is shadowed forth after 1880, in these years and for many to come he still had to seek his profit primarily as a trader. Until well after the turn of the century the story of the advertising agency is the story of the contest between these two forces in it: the newer creative advertising force, and the older, and then necessary, trading forces. Traces of that contest remain today.

As agents began to lose their exclusive controlled-space arrangements with publishers, price competition began to shrink agency profits again. This forced the agents into new trading expedients.

Advertising space was, and is, one of the most perishable of commodities—good only when, as, and if used. An opportunity to exchange this intangible value for the bread and butter of his business—namely, type and ink—was very attractive to a publisher. Hence we find advertising agents as early as 1872 becoming purveyors of such printing material, and taking their payment in advertising space at advantageous rates. In the eighties price competition seems to have intensified this activity.

Another road to a trading profit had been opened by Rowell as early as 1869, when he published the first directory of American newspapers. In this directory publishers themselves were induced

to advertise their papers, giving Rowell credit for space in their own papers in return. This gave Rowell a huge reservoir of publishers' space on which to draw in executing his advertisers' orders; and soon similar schemes in the form of directories, bluebooks, databooks, etc., were an adjunct of every well-organized agency.

But perhaps the most successful trading device of this day was when a financially strong agent turned banker. It was discovered that the new advertiser was often more interested in the terms than in the price, and many a product was marketed by the agent's financing of the advertising and the taking of his pay out of profits. The better prices which could be secured for space in this way sometimes justified the large risks which agents took.

But side by side with all these trading expedients—sometimes in the same agency—the conception of the agent's service function to the advertiser was developing. The Ayer "Open Contract" idea had made headway, and in 1891 George Batten started his agency in New York on a rigid adherence to the same principle, charging advertisers 15 per cent on the net cost of all space. Such a policy tended to take the agent who adopted it out of price competition and forced him to place his selling emphasis on service to the advertiser; also it gave him the profit margin with which to develop such service. It is significant that it is at this time that we first hear of agency copywriters, and of a new description of certain agency organizations as "service agencies."

As these service agencies developed, and publishers' rates became increasingly stabilized and hard to bargain for, the price-competing agent found himself forced to operate on a steadily shrinking margin. Newspaper commissions had, by the nineties, been generally reduced to 15 per cent. The national magazines, which were now acquiring advertising prestige, often paid commissions of only 10 per cent. But the price-trained agent was forced, by the competitive struggle, to cut this commission still further, even to the point of rebating all of it. When Rowell wrote his book in 1905 he said of such agents: "Not infrequently the extra discount [i.e., the cash discount, then 5 per cent] is all, or about all, the profit the agent makes on a considerable percentage of the business he sends out." As the "profit" here mentioned was gross profit, and as even it was often retained

only by long-credit risks, the margin in such an operation made the development of agency service impossible.

Coincident with these changes in the agency business publishers' ideas were changing. First, they began to see clearly the value of the agency to them as a force in the development of new advertisers. When that was seen, the necessity for protecting the profit incentive to the agent in such work easily followed. Hence we find the American Newspaper Publishers' Association adopting the following resolution in its convention of 1893: "*Resolved*, That it is the sense of this Association that agents' commission shall not be allowed to advertisers or their employees."

A similar resolution was adopted in 1894, and from that time on there was a growing agitation against the direct advertiser and "house agency," and a growing recognition on the part of the publisher that his long-time interests were best served by protecting the agent in his efforts to sell advertising.

Along with this, publishers could not fail also to notice that the service agency developed new advertisers more soundly and more successfully for the publisher than did the cut-rate agency. Also that their own credit risk was less with agencies operating on an adequate margin.

In short, it became clear to publishers that they had a vital interest in what the agent did with his commission.

Magazine publishers, who were in closer personal contact with agents than were newspaper publishers, and whose entire advertising revenue came from national advertising, saw this relationship between their interests and the agency commission most clearly. Standards of recognition for agencies began to be discussed among them.[5] Threats were made to cut off from recognition agents who rebated their commission, and these threats gained point when the Curtis Publishing Company dramatically withdrew its recognition from the J. Walter Thompson Company, one of the largest agencies of the day, because one of the solicitors in a Thompson branch office

[5] In January, 1898, the minutes of the Board of Directors of the Curtis Publishing Company record such a discussion.

had accepted a half-page order for the *Ladies' Home Journal* at a cut rate.

Out of this incident grew a proposal from Mr. C. E. Raymond of the Thompson Company to Mr. Thomas Balmer, Chicago representative of the Curtis Company, "that he and I draw up a contract to be binding alike on agent and publisher, by which cutting of rates should be made so difficult and dangerous to the agent that it would virtually abolish the practice."[6]

In March, 1901, a committee of the Board of Directors of the Curtis Publishing Company was appointed to consider the contract plan proposed, and in May of that year this committee recommended such an arrangement.

This contract as reproduced herewith was immediately put into effect. Under it the Curtis Company not only prohibited agents from accepting any orders for its publications at less than full card rates, but it bound itself not to "allow the agent's commission to any advertiser, under any condition or circumstance." The significance of this clause is in the fact that at this time 45 per cent of the Curtis advertising was coming directly from advertisers.

THE FIRST CURTIS CONTRACT

The Curtis Publishing Company
Philadelphia

.....190—

GENTLEMEN: In acting as your agent for the placing of advertising in *The Ladies' Home Journal* and *The Saturday Evening Post*, for which we are now allowed a commission of ten per cent., we hereby agree to maintain your *full card rate*, less the regular cash discount of five per cent. for payment before the first day of month following date of bill.

We further agree not to quote any price for advertising in *The Ladies' Home Journal* or *The Saturday Evening Post* at less than your full card rates at that time in effect, and should this agency, or any of its solicitors or connections, accept business and violate this agreement, either by direct cut in price or by allowance in any form, we will, upon satisfactory proof of same, pay you the full card rate for the business on which cut or allowance has been made—subject only to the regular cash discount.

We further agree to be held responsible for any quotation of your price at less than your full card rates, whether we do or do not secure the business, upon

[6] Raymond, *op. cit.*

which estimate has been made, and we agree that any quotation at less than *rates* will be considered a violation of our agreement.

It is understood and agreed upon our part that, should this agreement be violated a second time, we are to be dropped from the list of agents for *The Ladies' Home Journal* and *The Saturday Evening Post*, and that any future business from us—if accepted by you—will be subject to the regular cash discount only.

We further understand and agree that ten per cent. added to your net rate to us is a cut in your rate, and further that the five per cent. discount for cash cannot be allowed to an advertiser, unless the advertiser pays us as promptly as we must pay you to obtain it.

We further understand and agree that estimates on both *The Ladies' Home Journal* and *The Saturday Evening Post* must be made separately, and not with a list of publications, where any deviation is made from the publishers' full card rates at that time in effect.

This agreement is to supersede and cancel all previous agreements on this subject.

Very truly yours,

_____

In consideration of the above agreement being accepted and signed by you, The Curtis Publishing Company hereby agrees that it will not accept any advertising, either direct or through any of its agents, at other than the card rates at such time in force, and that it will not, under any condition or circumstance, allow the agent's commission to any advertiser.

_____
President

THE CURTIS PUBLISHING COMPANY

The Curtis contract had far-reaching effects. It established the principle that the publisher's commission was paid to the agent for the purpose of enabling the agent to "do for [new] advertisers what they were not able to do for themselves and what no publisher was in a position to furnish—namely, to prepare copy and illustration."[7] It registered the publisher's business interest in the service qualifications of the agent.

Other magazine publishers rapidly adopted the same attitude. Throughout 1902–3–4 the minutes of the Quoin Club, composed of advertising managers of all the leading magazines, show that it was debating and establishing standards of agency recognition, and passing on the qualifications of agents to meet these standards. Out of these activities grew the recognition machinery and standards of the Periodical Publishers' Association of America.

[7] Statement by William Boyd, former advertising director of the Curtis Publishing Company.

While the provisions of the Curtis contract, and of other publication agreements with regard to rate-cutting by agents, proved difficult of complete enforcement, they radically and rapidly altered the agency picture. They strengthened the hand of the service agency and made rate-cutting furtive and illegal. They protected the agent against the publisher's own competition. Soon the very term "service agency" disappeared, being no longer a necessary distinguishing one. Competition between agents swung to an emphasis on the agent's ability to make advertising pay the advertiser. In 1905 Mr. A. D. Lasker of Lord & Thomas dramatized this by hiring John C. Kennedy and advertising him as the $28,000 copywriter.

The agents who competed on this service basis began, after 1900, to attract attention by the number of outstanding advertising successes with which they were connected. Their volume of business began to grow at the expense of agents who were unable or unwilling to meet the new demands. By 1910, the leading 25 agents in volume of business with the Curtis Publishing Company included only 10 who were still suspected of rate-cutting. The Curtis volume with these 25 agencies in that year was $5,118,485. By 1920, 6 of the 10 agencies suspected of rate-cutting in 1910 had disappeared from the group of 25 leading agents, and the total Curtis volume with the group had grown to $30,000,000. By 1930, only 1 of the 10 remained in the group of 25 leaders, 3 had gone out of business, 4 had been reorganized under new personnel, and the remaining 2 had dropped to an unimportant position. The Curtis volume with the new group had grown to $45,000,000.

Two other developments of importance in the new agency structure took place during the decade 1900–1910. One of these was the general adoption by agents of the policy of working exclusively for one advertiser in a given line of trade. This policy definitely marked a new conception of the advertiser-agency relationship. The agent now presented himself to the advertiser as guide, counselor, and friend, and sought a relationship of intimacy and confidence.

Agency solicitors became "service men" or "account executives." Advertisers became "clients" instead of "customers." A new type of man, with a professional point of view, appeared in the agency business.

One of these newer men, Harry Dwight Smith, began in 1908 to sell to advertisers the need for a preliminary internal and market survey of a business, before advertising. His success in developing advertising in this way brought about the formal development of market research as a feature of agency service. And out of this development grew the agent's concern with all the phases of a business which might affect the success of its advertising. Fees to agents for services preparatory to advertising began to be heard of.

By 1912 the competition and expansion in agency service had so increased that a 10 per cent commission no longer gave adequate compensation to the agent who met all the new service standards. Some of the leading agencies were charging 15 per cent on the net, which made their charges above the publisher's card rate where the commission was 10 per cent, but below the card rate where the commission was 15 per cent, as it was with most newspapers. Becoming convinced that agency service, as it had been developed, required a higher commission, magazine publishers began to change from a commission of 10 per cent with 5 per cent cash discount, to a commission of 13 per cent with 3 per cent cash discount; and these latter figures soon became standard throughout the magazine field. As a commission of 13 per cent on the publisher's card rate yields the agent the same revenue as 15 per cent on the net rate, all agency service was again put on the same price basis, so far as the publisher could influence it.

All these developments, giving the agency business a new status and scope, were crystallized with the formation in 1917 of the American Association of Advertising Agencies, and with the setting up by this Association of standards of agency practice and service.

Up to this time the agency business had developed primarily in the service of publication advertising. Other mediums of advertising had developed their own selling and service organizations in specialized forms, some equivalent to specialized agencies. In all of these, however, were to be found the same basic arrangements on which

the advertising agency and publication advertising had developed, namely, the selling of the medium and the creation of advertising for the medium were joined in the same organization; and the compensation was principally by the commission method. Advertisers bought outdoor advertising from specialized agencies dealing only in this medium, and selling it and preparing copy for it, on a commission compensation. They bought street-car advertising in the same way; and direct mail and display advertising often from printers and lithographers whose services in the planning and creation of such advertising were paid for in the total rate.

But under the new semi-professional status which the advertising agent had developed, and with his service expanded to include a view of the advertiser's marketing problem as a whole, it became illogical to confine agency planning for the advertiser to any one type of medium. Seeking to expand his services to other than publication advertising the agent found himself faced with various practical difficulties.

In unstandardized, unprotected mediums such as direct mail, store display, etc., the agent found himself faced with such price competition from advertising departments and printers that there was no profit incentive for him to develop these. Nevertheless, he was forced to spread his service over these fields in numerous cases by the responsibilities assumed in carrying out his major plans.

In the use of outdoor advertising the agent found himself handicapped by chaotic conditions within the field and by the antagonism of specialized interests. But eventually, in 1916, the organization of the National Outdoor Advertising Bureau, agency owned, gave all agents who wished to take advantage of it full opportunity to use the outdoor medium. This agency Bureau now places for its agency members over 75 per cent of the total national outdoor business.

Shortly after the development of radio broadcasting as an advertising medium, broadcasting-station owners elected to do business under the agency method, and established an agency commission. This brought this important medium within the scope of agency planning, and led to the development of specialized radio departments as part of agency service.

Meantime, as agency service continued to expand, and special-

ized techniques and talent for it to develop, agencies again found their costs rising and their profits shrinking. In 1918 a committee of the American Association of Advertising Agencies began making repsentations to magazine publishers for an increase in the commission from 13 to 15 per cent, and this was eventually adopted by all the principal magazines. Another committee of the same Association then sought to bring about a standardization of the 15 per cent commission, with a 2 per cent cash discount, among publishers of all kinds, advocating a reduction of higher commissions where these existed, and an increase to this rate where, as with some metropolitan newspapers, a lower one was paid. At the present time this commission and cash discount are uniform throughout the general periodical field, with immaterial exceptions.

This sketch of the development of the agency and its method of compensation would not be complete without some account of the criticisms which have been made of it.

"Whom does the agent represent?" asked the manager of the *Chicago Tribune* of a new advertising agent in 1866.

From that day forward the records show that this question, with all its implications, has been perennially debated by publishers, advertisers, and agents alike.

The answer of the agent, George P. Rowell, to whom the foregoing question was addressed, is part of the record:

> I declined to speak for others, but for myself would venture to say that I, as an agent, represented myself. That seemed to be a new idea to Mr. Cowles [of the *Chicago Tribune*], but, on reflection, he admitted that such might also be the case with some of the others.
>
> What Mr. Cowles had in mind when he propounded his conundrum was that the agent purported to represent the newspaper, that the newspaper paid him, but that in practice the agent represented the advertiser and worked for his interests all the time. The proposition was new to me. I had not carried my consideration of the question so far; but in after years I noted that although the agent's commission apparently does come in the shape of an allowance from the paper when the bill is paid, yet the actual money comes not from the paper but from the advertiser. I have also noticed that in all brokerage it is the buyer that the broker must seek, that without the buyer he can do nothing for the seller, and the loyalty is admitted to be due to the man who pays the broker money rather than to the man to whom the broker pays the money."[8]

[8] Rowell, *op. cit.*, p. 98.

The question of the agent's position and how he should be paid continued to be debated. Writing of conditions in the eighties and nineties, Mr. C. E. Raymond says:

> There was the agent, like Charles Austin Bates, who maintained that the commission was inequitable, and who charged a fee for his services, and charged the advertising space to his customers at cost. There was the free lance, who argued that the agency commission was robbery, and that the advertiser could place his space as cheaply as the agent, and only needed help in copy and campaign, which he would deliver for a fee. There was the publisher who claimed he received no help from the agent and would allow no commission. . . . .
>
> While these discussions as to the rights of the agent, moral and otherwise, to charge a commission, were at their height, Mr. Frank A. Munsey, publisher of *Munsey's Magazine*, *Argosy* and *All Story Magazine* and other monthlies, issued a manifesto abolishing all commissions to agents. He gave as a reason that he had a force of advertising solicitors in the field which he was maintaining at his expense and that they could get all the advertising he needed, that the agents did not render him any service, and were therefore not entitled to compensation. This experiment was watched by the agents with great interest. They were uncertain whether it marked the beginning of like action on the part of other publishers or whether it would serve to prove the strength and justice of their position. The publishers, too, were greatly interested, for if Munsey should succeed, they might also adopt the same plan.
>
> Mr. Munsey's experiment proved a failure. His volume dropped appreciably, and what he published came at a cost which plainly showed that he had misjudged the position and strength of the agents. It showed that advertisers could measure the usefulness of their agents, and were unwilling to have their compensation wiped out. Munsey's no-commission plan was abandoned within a year of its adoption.

About 1900, when the Curtis contract was being developed, and when publishers generally were opposing the granting of commissions to direct advertisers and the rebating of commissions by agents, one Frederick L. Perine appears in the records as a vigorous opponent of the agency "system." He is said to have formed the North American Advertising Corporation, in which various advertisers were stockholders, and sought agency recognition. After the failure of this effort he is said to have been engaged by the Standard Oil Company to endeavor to deal direct with newspapers and to secure for them the agency commission. He appears again in 1911 writing advertisers and asking their assistance in his efforts to break down the "agency system."

In 1910 the Association of National Advertising Managers was formed. During 1911 this Association appointed an Agency Relations Committee, and early in 1912 this Committee issued an attack on the "agency commission system." At its June meeting that year the Association supported its Committee by passing a resolution advocating a fee basis of remuneration for agents and a removal of restrictions preventing the splitting of commissions.

At about this same time a committee of the Cleveland Advertising Club circularized advertising clubs all over the United States urging co-operation in bringing about a removal of "the commission system."

In 1914 the Association of National Advertising Managers changed its name to the Association of National Advertisers. In 1915 the new Association discussed the question of agency commissions and reiterated its belief that "the system" should be abolished.

In 1916 Mr. John Sullivan became secretary-treasurer of the Association of National Advertisers and is said by publishers to have more or less continuously agitated the question of agency compensation for several years thereafter. No official discussion of the subject was held in the Association's meetings, however, between 1916 and 1921.

In May, 1921, *Editor and Publisher*, leading newspaper trade journal, published an editorial advocating payment of the agent by the advertiser.

In the same month the Association of National Advertisers held a convention at which it went on record: first, that the agency is solely the representative of the advertiser and should be paid on a fee basis for services rendered; second, that the advertiser as the purchaser of a commodity (white space) is entitled to the lowest price he can get; and, third, that its Agency Relations Committee should agitate these views among publishers, advertisers, and agents—which it later did.

In May, 1922, one of the members of the A.N.A., representing the Firestone Tire and Rubber Company, appeared before an association of newspaper publishers and addressed them on the desirability of abolishing the agency commission, or of accepting Firestone advertising directly at net rates.

In 1922 a movement started among southern newspaper publishers to cut the agency commission in half, but failed of adoption in their association.

In December, 1924, the Federal Trade Commission issued a complaint against the American Association of Advertising Agencies, the American Press Association, and the Southern Newspaper Publishers' Association, charging them with conspiracy in restraint of trade. In January, 1926, the Commission amended this complaint to include the American Newspaper Publishers' Association and the Six Point League, a group of newspaper special representatives.

The history of this Federal Trade Commission case as summed up in the official report is:

> *Charge:* Combining or conspiring to control channels of distribution and to enforce a standard differential, in connection with the placing of national advertising; more specifically, to compel "national advertisers to employ respondent agencies or other advertising agencies in the placing of national advertising in newspapers throughout the United States, to prevent said advertisers from advertising directly in said newspapers at net rates and to compel said advertisers to pay for direct advertising at gross rates" and in connection with the enforcement of a standard differential of 15 per cent on the regular or gross advertising rates of the periodicals as minimum compensation for the advertising agencies.
>
> Dismissed [January 22, 1930] after answer and trial, without assignment of reasons.

On March 2, 1925, Mr. Ivy Lee reported in his broadside *Public Relations* the results of his questioning of "the agency system" in the interest of "a large manufacturing company."

"To establish the facts," he said, "I asked a large number of advertisers and publishers to give me answers to the following questions:

1. Is the present agency system so firmly entrenched in American business practice that every advertiser should avail himself of it?
2. Do you know of any advertisers who place their advertising direct rather than through agencies? Have any of these who place their advertising direct changed from the agency method recently?
3. Do you know of any publications which will accept advertising at net rates to the advertiser direct rather than insisting that the commission shall in all cases go to an agent only?
4. What are the merits—from an advertiser's standpoint—of the existing agency system?
5. What are the merits—from a publisher's standpoint—of the existing agency system?

(Mr. Lee's summary of his findings from this investigation is given in the Appendix.)

The cases here quoted by no means represent all which could be cited, but they are perhaps sufficient to indicate the period of time over which the "agency system" has been questioned and the nature of the opposition to it.

There have, apparently, always been, and there continue to be, critics of the advertising agency and its method of compensation, among publishers, advertisers, and agents. The record of this is brought down to date in the following examples:

In 1931 Dr. William J. Reilly, formerly of the market research staffs of the Procter & Gamble Company and the Erickson Company published a monograph called *Effects of the Advertising Agency Commission System*, but dealing with its defects.

In the same year Cowan & Dengler, a New York agency, published a brochure on their fee system, attacking the ordinary commission method of compensation.

In January, 1932, another small New York agent published trade paper advertising attacking the "15 per cent commission plan" as inadequate for industrial advertisers.

In June, 1932, *Printers' Ink* published a letter from the president of General Motors Corporation in which, as quoted, he stated: "The relationship established by the publisher with respect to the advertising agency is unsound, uneconomic and unfair."

In November, 1932, Mr. Lee Bristol, the retiring president of the Association of National Advertisers addressed its convention on this subject, saying: "Most advertisers have for years been opposed to the agency system of remuneration, with all its inequalities and inefficiencies, and have plainly said so. I believe they say so more emphatically today because its weakness is more apparent than ever."

PART I

SECTION III

THE MODERN AGENCY AS ADVERTISERS SEE IT

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Services of the Agency as Described by Advertisers
What Advertisers Think of These Different Services
What Advertisers Think of the Agency Mechanism as a Whole
What the Nature of Advertiser-Agency Relationships Is
What Results Advertisers Have Secured from Agency Service
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What Advertisers Think of the Method of Agency Compensation

SECTION III

THE MODERN AGENCY AS ADVERTISERS SEE IT

NOTE.—In this section will be found facts and expressions of opinion gathered from advertisers. These were secured by personal interviews and by the use of Questionnaires Nos. 1 and 2 shown in the Appendix. These questionnaires were sent to all the advertisers in the list given hereafter who were not personally interviewed. All interviews were with the presidents of companies, and both questionnaires were addressed to the presidents of these companies.

This list of advertisers includes all members of the Association of National Advertisers as of November, 1932, and all of the 100 leading magazine advertisers for 1931 who were not members of the A.N.A. It also includes all important magazine advertisers who, in trade opinion, might have "rebating" arrangements with their agencies.

In number of advertisers the list includes 18 per cent of the total number of magazine advertisers listed in Crowell's *National Markets and National Advertising* for 1930. In dollar volume of magazine advertising this list represents 59 per cent of the total amount of magazine advertising listed in the same book.

The list is believed to be representative with the exception that it contains a smaller percentage of advertisers with expenditures under $50,000 than is found in the total number of magazine advertisers, and a higher percentage of advertisers with expenditures over $1,000,000.

Of this list of advertisers nearly 64 per cent supplied the information asked for in Questionnaire No. 1. As this information was of a confidential nature, namely, as to the advertiser's financial arrangement with his agency, it was asked for in unidentifiable form, and most of it was received in such form.

In seeking such information the question which posed itself was whether advertisers with "cut-rate" agency arrangements would reply, and whether the resulting answers would therefore be representative. To test this the questionnaire was sent in a special form to those advertisers with a reputation for irregular agency arrangements. This form did not permit identification of the individual advertiser, but did enable the examiner to compare the percentage of replies from this special group with that from the whole group. The results indicate that there was probably somewhat less willingness to reply on the part of the advertiser receiving a "rebate." As against the effect of this on the total results must be considered the fact that, by the specific addition to the list of advertisers thought to be of this kind, a higher percentage of such advertisers was included than would appear in an average sample. Both these factors have been considered in drawing conclusions as to the total amount of advertising being handled under rebating arrangements.

Questionnaire No. 2, sent to the same group of advertisers, asked for replies in identifiable form. Replies were received from approximately 40 per cent of the group, and, with a few exceptions, in identifiable form.

These replies were made by the following:

Presidents	15
General managers	3
Other executive officers	18
Advertising managers and directors	52
Advertising managers with approval of executive officers	10
Not indicated	3
	101

ADVERTISERS QUERIED

A. C. Spark Plug Company
Addressograph-Multigraph Corporation
Aetna Life Insurance Company
Alemite Corporation
Alexander Hamilton Institute
Aluminum Company of America
The American Agricultural Chemical Company
American Brass Company
American Chicle Company
American Express Company
American Optical Company
American Radiator & Standard Sanitary Corporation
The American Rolling Mill Company
American Sales Book Company, Ltd.
American School
American Sheet & Tin Plate Company
American Steel & Wire Company
American Stove Company
American Telephone & Telegraph Company
The American Tobacco Company
Anaconda Copper Mining Company
Anheuser-Busch, Inc.
Elizabeth Arden
Armour & Company
Armstrong Cork Company
Art Metal Works, Inc.
Associated Apparel Industries, Inc.
The Autocar Company
Axton-Fisher Tobacco Company, Inc.
Bakelite Corporation
Bassick Company
Battle Creek Food Company
Bauer & Black
Bausch & Lomb Optical Company
Bayuk Cigars, Inc.
Beech-Nut Packing Company
Bissell Carpet Sweeper Company

Black & Decker Manufacturing Company
The Bloch Brothers Tobacco Company
The Bon Ami Company
The Borden Company
Borden's Farm Products Company, Inc.
The Borden Sales Company
A. S. Boyle Company
Bristol-Myers Company
Brown Shoe Company
Buick Motor Company
Bulova Watch Company, Inc.
W. Atlee Burpee Company
Burroughs Adding Machine Company
Cadillac Motor Car Company
California Fruit Growers Exchange
California Packing Corporation
Campana Corporation
Campbell Soup Company
Canada Dry Ginger Ale, Inc.
Carleton & Hovey Company
Carnation Company
Carnegie Steel Company
The Celotex Company
The Centaur Company
Chamberlain & Company
The Champion Coated Paper Company
Champion Spark Plug Company
Chase Brass & Copper Company
Chesebrough Manufacturing Company Consolidated
Chevrolet Motor Company
Chicago Mail Order Company
Chrysler Sales Corporation
The Climalene Company
Coca-Cola Company
Colgate-Palmolive-Peet Company
J. & J. Colman U.S.A. Limited
Colt's Patent Fire Arms Manufacturing Company
Congoleum-Nairn, Inc.
Copper & Brass Research Association
Corn Products Refining Company
Coty, Inc.
Coyne Electrical School
Cream of Wheat Corporation
Crescent Manufacturing Company
The Crofut & Knapp Company
Crystal Corporation
The Cudahy Packing Company
The Davey Tree Expert Company, Inc.

R. B. Davis Company
Deere & Company
The De Laval Separator Company
Dennison Manufacturing Company
Detroit Steel Products Company
Dexter Folder Company
Dodge Brothers Corporation
Henry L. Doherty & Company
The Drackett Chemical Sales Company
E. I. du Pont de Nemours & Company, Inc.
The Eagle-Picher Lead Company
Eastman Kodak Company
Edison General Electric Appliance Company
Electric Ad-Clock Company
The Electric Storage Battery Company
Electrolux Refrigerator Sales, Inc.
The Enterprise Manufacturing Company
The Equitable Life Assurance Society of the United States
The Estate Stove Company
Ethyl Gasoline Corporation
Ex-Lax, Inc.
Fels & Company
Walter Field Company
Firestone Tire & Rubber Company
Fisher Body Corporation
Florsheim Shoe Company
Ford Motor Company
Foster-Milburn Company
Fremont Canning Company
French Lick Springs Hotel Company
Frigidaire Corporation
The Frostilla Company
Fruit Dispatch Company
The Fuller Brush Company
The Garlock Packing Company
General Card Company
General Electric Company
General Foods Corporation
General Mills, Inc.
General Motors Corporation
General Motors Export Company
General Timber Service, Inc.
Gillette Safety Razor Company
Gold Dust Corporation
The B. F. Goodrich Rubber Company
Goodyear Tire & Rubber Company, Inc.
Grace Line
Graybar Electric Company, Inc.

Daniel Green Company
Grigsby-Grunow Company
Gruen Watch Makers Guild
Gulf Refining Company
Hamilton Watch Company
Hammermill Paper Company
John Hancock Mutual Life Insurance Company
Hawaiian Pineapple Company, Ltd.
Health Products Corporation
Hecker-H-O Company, Inc.
Henry Heide, Inc.
H. J. Heinz Company
Peter Henderson & Company
Hercules Powder Company
The Hills Brothers Company
Hinze Ambrosia, Inc.
The Home Insurance Company
Hood Rubber Products Company, Inc.
The Hoover Company
George A. Hormel & Company
Mr. H. H. Horton
J. M. Horton Ice Cream Company, Inc.
Hotels Statler Company, Inc.
Houbigant, Inc.
Household Finance Corporation
Richard Hudnut
Hudson Motor Car Company
Hupp Motor Car Corporation
Hurley Machine Company
Hygienic Products Company
Hygrade Sylvania Corporation
Illinois Watch Company
Indian Refining Company, Inc.
International Correspondence Schools
International Harvester Company of America, Inc.
International Silver Company
International Telephone & Telegraph Company
Interwoven Stocking Company
John F. Jelke Company
Jergens-Woodbury Sales Corporation
Johns-Manville Corporation
Johnson & Johnson
S. C. Johnson & Son
Jones & Laughlin Steel Corporation
Jean Jordeau, Inc.
Kellogg Company
Atwater Kent Manufacturing Company
Kirsch Company

Kleenex Company
J. W. Kobi Company
The Kotex Company
Kraft Phenix Cheese Company
The Lambert Company
Landers, Frary & Clark
LaSalle Extension University
Lehn & Fink, Inc.
Lever Brothers Company
Lewis Manufacturing Company
Libbey Owens Ford Glass Company
Libby, McNeill & Libby
Life Savers, Inc.
Liggett & Myers Tobacco Company, Inc.
Link-Belt Company
Thomas J. Lipton, Inc.
Loose-Wiles Biscuit Company
The George W. Luft Company, Inc.
The Mallory Hat Company
McKesson & Robbins
The Mennen Company
Mergenthaler Linotype Company
Metropolitan Life Insurance Company
Mohawk Carpet Mills, Inc.
The Munsingwear Corporation
Murphy Varnish Company
Nashua Manufacturing Company
National Biscuit Company
National Carbon Company, Inc.
National Electric Light Association
National Lead Company
National Tube Company
North American Accident Insurance Company
Northwestern Yeast Company
Oakite Products, Inc.
Oakland Motor Car Company
Oneida Community, Ltd.
Orange-Crush Company
Otis Elevator Company
Oxford Paper Company
Packard Motor Car Company
The Packer Manufacturing Company, Inc.
Parke, Davis & Company
Pepperell Manufacturing Company
The Pepsodent Company
Perfection Stove Company
Pet Milk Company
William Peterman, Inc.

Philadelphia Storage Battery Company
Pillsbury Flour Mills Company
Lydia E. Pinkham Medicine Company
Pittsburgh Plate Glass Company
Pittsburgh Steel Company
Plymouth Motor Corporation
The Pompeian Company, Inc.
Pond's Extract Company
Postal Telegraph-Cable Company
Pratt & Lambert, Inc.
Premier Malt Sales Company
The Premier Vacuum Cleaner Company
The Procter & Gamble Company
The Prudential Insurance Company of America
The Quaker Oats Company
Quaker State Oil Refining Company
RCA Radiotron Company, Inc.
RCA Victor Company, Inc.
Radio Corporation of America
Ralston Purina Company, Inc.
Reid Ice Cream Corporation
Remington Arms Company, Inc.
Reo Motor Car Company
Resinol Chemical Company
R. J. Reynolds Tobacco Company
Richfield Oil Corporation of New York
William Rogers Manufacturing Company
Mme Helena Rubinstein
Sales Builders, Inc.
Schieffelin & Company
Scott Paper Company
Sears, Roebuck & Company
Segal Safety Razor Corporation
Sharp & Dohme Mulford, Inc.
W. A. Sheaffer Pen Company
Singer Sewing Machine Company
S. K. F. Industries, Inc.
W. & J. Sloane: Wholesale
Society of American Florists
The Southern Cotton Oil Company
The Spool Cotton Company
E. R. Squibb & Sons
Stanco, Inc.
Standard Brands, Inc.
Standard Gas Equipment Corporation
Standard Oil Company (New Jersey)
The Standard Textile Products Company
A. Stein & Company

Stewart-Warner Corporation
Strathmore Paper Company
Stromberg-Carlson Telephone Manufacturing Company
The Studebaker Corporation of America
Swift & Company
The Texas Company
Tide Water Oil Sales Corporation
Timken Roller Bearing Company
The Timken Silent Automatic Company
Towle Manufacturing Company
Union Carbide & Carbon Corporation
United Drug Company
United States Rubber Company
Vacuum Oil Company
Van Raalte Company
Vick Chemical Company
The Viscose Company
The Wahl Company
The Wander Company
Wardman Real Estate Properties, Inc.
The Warner Brothers Company, Inc.
Northam Warren Corporation
S. D. Warren Company
Warren Telechron Company
L. E. Waterman Company
The R. L. Watkins Company
The Welch Grape Juice Company
Wesson Oil & Snowdrift Company, Inc.
Western Clock Company
The Western Company
Western Electric Company
Westinghouse Electric & Manufacturing Company
Westinghouse Lamp Company
The White Company
Stephen F. Whitman & Son, Inc.
M. J. Whittall Associates, Ltd.
Wickwire Spencer Steel Company
Willard Storage Battery Company
The J. B. Williams Company
William Wrigley Jr. Company
Yawman & Erbe Manufacturing Company
W. F. Young, Inc.
Zonite Products Corporation

SERVICES OF THE MODERN AGENCY

The advertisers previously listed were asked: "What kinds of services are performed for you by your present agency?"

This proved to be a difficult question for many to answer in what

they conceived to be an adequate way. "It would be well-nigh impossible to answer this completely," says one advertiser (No. 12) expending in excess of $1,000,000.[1] "The types of services performed for us by our advertising agency are legion, and it would be impossible for me to list them all here," says an advertiser (No. 53), expending between $250,000 and $500,000. "The services of our agency are too numerous to be detailed," says another (No. 68), expending between $100,000 and $250,000.

Answers giving the most detailed and extensive picture of agency service are the following:

From an advertiser (No. 17) expending in excess of $1,000,000:

Our agencies perform for us the following functions:

a) The study of our products and their markets—past, present, and potential, with the purpose of finding their most effective selling appeals and the embodying of those selling appeals in copy and art.

b) The study and selection in our behalf of advertising media.

c) The study of market conditions, competitive and otherwise, affecting our own products, in individual territories, to aid us in the application of local remedies to local difficulties.

d) The study of all possible conditions affecting the sale of our products and the preparation of recommendations to aid us in such sales policies as those involving prices, packages, relations with our customers, etc.

e) Conducting field investigations to aid in the accomplishing of any of the above purposes.

f) Preparation of copy and art for use in our many booklets; the preparation of copy and art for such direct mail material as we use; preparation of copy and art for much of our dealer display material; miscellaneous copy and art service in connection with such matters as the designing of packages.

g) Complete radio service, including the preliminary development or weeding out of proposed radio programs, preparation of continuities for such programs, supervision of the broadcasts, handling the many details of station and time selection, and conducting all negotiations with broadcasting companies.

h) Publicity service both for our products and corporation.

i) The usual more or less mechanical agency functions, such as checking insertions, negotiations with publishers in connection with space orders and the filling of those orders, the preparation and the forwarding of plates, etc.

j) Miscellaneous services, many of which have no relationship to advertising. Examples are: participation in formal and informal conferences, having

[1] All expenditures, unless otherwise noted, are the advertiser's 1931 expenditures through an agency.

to do with a large variety of company activities; assistance in the preparation of articles and addresses for members of the organization; assistance in organization and promotional problems in connection with trade associations in which we are interested.

(Minor changes have been made in this quotation to prevent identification.)

From an advertiser (No. 37) expending between $500,000 and $1,000,000:

Our advertising agency handles all of our advertising including magazines, newspapers, farm papers, trade publications, booklets, leaflets, etc.

They place all of the contracts in connection with the above, and conduct all of the negotiations with publications regarding positions, rates, circulation, etc. They check all of the scheduled advertising and pay all advertising invoices.

They have charge of the creation and complete preparation of layouts, illustrations, text matter and plates of all advertisements and printed matter.

They conduct a market and product research department, which is at our service, a fee being charged when major work of this kind is undertaken.

They handle all of our foreign advertising throughout the world, including magazines, newspapers, trade papers, booklets, etc., and give the same service to the export department as to the domestic advertising, as previously stated.

They also give us ideas regarding dealer helps and displays and have charge of the creation and preparation of material of this nature that we require.

They furnish us with suggestions in connection with styled merchandise and the re-designing of existing packages, and keep available to us the facilities of their Product Styling Department.

In addition they offer us the service of their radio, outdoor and publicity departments, all of which we have used in a minor way.

From an advertiser (No. 53) expending between $250,000 and $500,000:

Our agency services comprise, first of all, the normal and natural functions which every advertising agency performs for every client—the study of and research into our consumer advertising problems, and the preparation of advertising to solve those problems. They continue on through the categories of trade publication advertising, dealer broadsides and portfolios, and into the more vague classification of general help and consultation on all our merchandising problems, particularly where any consumer angle is present. For example, we invariably call on them for suggestions when we are confronted with the problem of working out the copy story for a new window display, a carton insert, and so on. We rely heavily on their help in preparing promotional material in connection with contests which we are continually staging. In brief, you might say whenever a problem comes up involving the need for "words," we are pretty likely to issue a cry of help to our agency.

(Quotation slightly changed to avoid identification.)

From an advertiser (No. 84) expending between $100,000 and $250,000:

Our agency works with us on every phase of our promotional effort and by no means confines its efforts to preparation of copy and selling us space. They do a lot of work in helping us plan direct mail, folders, leaflets and various pieces of display and promotional material which we buy or handle ourselves, though their only compensation for this is 15 per cent on actual expenses in the way of art and so forth.

Questionnaires No. 2 were returned by, or interviews held with, 101 advertisers. Taking these as a whole, 14 made no specific answer to the question "What kinds of services are performed for you by your present agency?" Eleven more answered that they limited their agency to only the "ordinary" functions of preparing and placing advertising; 3 said they used an agency for placing and billing only; 1 for art and mechanical work only; 1 for art and media advice only; 1 for mechanical work only. The remaining 70 advertisers described their agency service mostly in such general terms as the following:

From an advertiser (No. 5) expending in excess of $1,000,000:

Outside of general agency services which include copy, layout, and production, we receive other services as follows: research, contact with our field staff, contact with dealers, and specialized help from the agency's marketing department. In general, it is believed that we receive most of the services which an agency should perform for an advertiser of our type.

(Quotation slightly changed to avoid identification.)

From an advertiser (No. 38) expending between $500,000 and $1,000,000:

Our agency performs a variety of services including the study of markets, the selection of media, the preparation of advertising for use in those media, merchandising counsel on packages and merchandising material, and other related services.

From an advertiser (No. 45) expending between $250,000 and $500,000:

Our agency renders the customary copy and placing service and, in addition, cooperates with us very closely on sales problems, the latter including the making of surveys in the field.

From an advertiser (No. 66) expending between $100,000 and $250,000:

Our present agency handles our direct-to-consumer advertising completely, in addition to which we draw on their counsel in our merchandising plans, our sales organization set-up and methods, and our plans for sales promotion through our dealers.

From an advertiser (No. 98) expending less than $50,000:

Our present agency prepares copy, advises as to type and amount of expenditure to do a given job, assists in analysis of the marketing problem and in the plan for accomplishing the marketing objective.

Scattered among these descriptions of agency service as given by 70 advertisers were references to services other than the preparation of consumer publication advertising as listed in Table VII.

TABLE VII

	Times Mentioned
Merchandising or sales counsel	33
Research, market surveys, etc.	33
Direct mail and printed matter	22
Trade paper advertising	13
Display and dealer helps	13
Radio programs	10
Package designs	8
Publicity	6
Work with sales force	6
Merchandising advertising	5
Work with dealers	4
New product research	4
Outdoor advertising	3
Package literature	3
Kitchen laboratory	2

As exhibited in the quotations above, most of the replies to this question made no effort to give a complete and detailed list of services received. It is believed, therefore, that the tabulated list of services given in Table VII should not be accepted as representing the whole number of advertisers receiving any specific service. What the list probably does represent is the range of services offered and the relative degree of use and recollection of the different services by advertisers.

In general, it is noticeable that the replies to this question: "What kinds of service are performed for you by your present agency?" tend to become less detailed as the size of the advertiser's expenditures go down. Advertisers expending in excess of $1,000,000 specifically name more of the so-called extra services than any other group.

On the other hand, as will be seen below, many of the smaller advertisers state that they are receiving all the service they need, do not use all that is available, etc.

WHAT ADVERTISERS THINK OF AGENCY SERVICES

In connection with the preceding question, advertisers were also asked: "Which of these services do you value most? Which do you think are superfluous? Are there any services you don't get which you think an agency should perform?"

NOTE.—It will be observed that these questions and some which follow call, not for a factual answer, but for an expression of attitudes. No entirely satisfactory technique for measuring attitudes is known. The two direct methods which may be employed are illustrated by the questions:

What do you think of matrimony?
What do you think of your wife?

The first tends to bring out an overstatement of defects, and the second an understatement of defects. As the second method is employed here, an understatement may have been secured. The fact, however, that the list queried included all known critics of the advertising agency should have offset any tendency toward understatement inherent in the method.

In answering the questions above, many advertisers apparently found it difficult to say which service they valued most, stating that they valued all, and looked upon all as necessary. For example:

From an advertiser (No. 3) expending in excess of $1,000,000:

The services performed by our agency are the following:

I. Preparation and insertion of advertisements.
II. Preparation of radio programs.
III. Educational efforts among our sales force.
IV. Studies of market trends within our field.
V. Studies of competitive practices of other manufacturers.
VI. Package design and testing.
VII. Detailed studies of consumer buying habits on purchasing power necessary to the exact definition of markets.
VIII. Studies of the sales opportunities offered by different channels of distribution.
IX. Preparation of display and other promotional material.

We value all of the services and consider them necessary. Of course, in as competitive a market as ours, we are dependent upon the results of successful consumer advertising, more than any other single sales force, to produce our sales volume. There are no services, which I think our agency should perform, which we do not obtain.

From an advertiser (No. 42) expending between $250,000 and $500,000:

Primarily, the services performed for us by our present agency cover merchandising counsel, copy, art and space buying. Whereas the copy and art prepared by our agency is principally for publication advertising and outdoor advertising, we frequently have the agency prepare copy and art work for direct mail advertising. With reference to radio advertising, the agency renders the service of contracting for time and planning and preparing programs. I consider all these services normal functions of the agency, and I believe we are procuring from our present agency all the services that we can logically expect them to perform.

From an advertiser (No. 87) expending less than $100,000:

We are getting all the necessary services which the average modern agency performs. We are getting all the services we are in need of. Nearly all agencies are willing to give you the benefit of any reasonable cooperation which may be of value to their client.

Thus of the 101 advertisers 40 specified no one service which they are receiving which they consider of more value than another. An additional 9 advertisers specifically state that they value all the services. Of the remaining 52 advertisers 37 say that the "creation of ideas" or "the preparation of selling advertisements" is the outstanding value; 5 state that they value most the agency's counsel; 5 value most the agency's "sales plans," "merchandising help" or "work with sales force"; 2 value only the agency's art assistance; 1 values most work on new products; 1 kitchen experimentation; 1 the agency's outside point of view.

Representative of the emphasis placed by 37 advertisers on the creation of ideas and copy are the following:

From an advertiser (No. 1) expending in excess of $1,000,000:

The all-important function which our agency performs for us is the creation of copy ideas and the execution of effective advertisements.

From an advertiser (No. 35) expending between $500,000 and $1,000,000:

Of course the greatest service our agency performs lies in the expert preparation of successful copy and advertising ideas. This we regard as an agency's primary function.

From an advertiser (No. 53) expending between $250,000 and $500,000:

The service which we value most is . . . . the study of our consumer advertising problems and the building of advertising which will solve those problems. . . . . All of the other agency activities in our opinion, while important and valuable to us, are definitely subordinate to this one.

From an advertiser (No. 77) expending between $100,000 and $250,000:

I value copy and illustration as most important in advertising our product.

From an advertiser (No. 91) expending less than $100,000:

We have been fortunate in having an agency that considers its sole purpose the development of effective advertising and co-related help for us.

Viewing the value placed on agency services from answers to the question: "Which services do you think superfluous?" we find the following:

Of the 101 advertisers, 47 named no services which they consider superfluous. Another 42 either specifically state that they consider none superfluous or that they value all. Of the remaining 12 advertisers 8 name services which they consider to some degree superfluous as follows:

From an advertiser (No. 9) expending in excess of $1,000,000:

We believe the average agency has over-expanded its functions and is attempting to perform services today which it should not perform. We should not prefer to handle our advertising without an agency, but we do not want to pay for services which we cannot or do not want to use.

From an advertiser (No. 10) expending in excess of $1,000,000:

I wholly disapprove of the fact that agencies indulge in any form of investigational research that is in the nature of a check on the work they are doing or have done. My objection to this is identical with that criticism I would direct to a police department checking their own efficiency.

From an advertiser (No. 13) expending in excess of $1,000,000:

Research work and market studies are probably the least valuable services; ideas, constructive planning, and good copy are the most important functions.

From an advertiser (No. 15) expending in excess of $1,000,000:

The only service which might be considered superfluous is market analysis, which is ordinarily performed by the advertiser. Since it is given to us without direct cost, we are glad to have this service.

From an advertiser (No. 22) expending in excess of $1,000,000:

Our advertising agencies perform the broadest kind of services for us. We value most the selling thought and the putting of that thought into completed form. We value next the buying ability. We value less the so-called research and market and consumer study, and least of all product study.

From an advertiser (No. 26) expending between $500,000 and $1,000,000:

Would prefer to handle advertising direct and so eliminate duplication of effort. This applies to sales contacts on part of publications, creation of techni-

cal copy, checking of insertions. Value creation of copy ideas most. Place little value on creation and purchase of display material.

From an advertiser (No. 44) expending between $250,000 and $500,000:

I would say that the thing of most value they (the agency) do for us is the working out of proper advertisements. There are no other services that I think an agency need perform that the advertiser cannot perform for himself fully as well if he is equipped to do a fairly sizeable advertising job.

From an advertiser (No. 61) expending between $100,000 and $250,000:

We think most agency services are superfluous with the exception of the preparation of copy and the elimination of many of the details incident to creative work. We believe the agencies' attempt to embark in merchandising fields about which they are not fully familiar leads to many erroneous and ridiculous impressions as to market possibilities.

Three advertisers indicate that services which they now receive and value they might consider differently if they had a free choice as to paying for them. The comments of these three advertisers are:

From an advertiser (No. 18) expending in excess of $5,000,000:

I think that this particular question brings out one of the difficulties that, as an advertiser, I believe exists: viz., that as one advertiser against another the desirability of one service against another, is quite different, and yet the compensation is exactly the same. The result is that there must be a tendency on the part of the agency to perform services which are not thoroughly economic, perhaps which duplicate what the advertiser is himself performing simply because in the case of a larger advertiser a fixed compensation does not enable any flexibility to be injected into the picture. There is too much of a tendency to adjust the services rendered with relation to a fixed compensation rather than pick out the services that are most desirable and pay a fair price for such services.

From an advertiser (No. 2) expending in excess of $1,000,000:

We value most advertising ideas. Practically all of the other services, and even those which we value, are duplicated necessarily to a considerable extent by our own organization. We often call on agencies to perform services which might not be performed because of costs out of proportion to value, in order to receive some returns on what otherwise is a frozen asset—the agency commission.

From an advertiser (No. 53) expending between $250,000 and $500,000:

In answering your question as to whether or not we consider any of these services superfluous, I would say that we do not—all have a definite and positive value in our business scheme. If you were to re-phrase your question and say "supposing that you could buy from your advertising agency the finest possible consumer advertising for say 7 per cent instead of 15 per cent, but that this necessitated your doing without the other subordinated services which you now

think valuable—would you consider this a good proposition?" we would, of course, have to answer "yes." If the other services were assigned a cost factor of 8 per cent out of the total 15 per cent, we would be paying far too high a cost for these services, considering that consumer advertising is the principal thing that we are buying. In other words, the point I am trying to get across is this, without reference to a particular agency, but to the agency situation in general:

Have a large number of valuable but not essential services grown up in the advertising agency business under the sheltering umbrella of the 15 per cent commission? If so, would it be possible for advertising agencies to render the highest type of consumer advertising service (equal in every way to what they are giving now) at a substantially lower cost, by eliminating many of these valuable but not essential services?

One other advertiser, not reported in any of the above groups with regard to superfluous services, says:

From an advertiser (No. 28) expending between $500,000 and $1,000,000:

Ours is a large agency, offering us every kind of service. Some departments which we did not have occasion to use and might have thought superfluous have since proved a real value to us. Our agency maintains a laboratory kitchen which probably is of no value to some clients, but which is of great importance to us.

In part contrasting with, and in part supplementing, the preceding views on superfluous services, are the answers of advertisers to the question: "Are there any services you don't get which you think an agency should perform?"

Of the 101 advertisers, 11 name specific services to which they think their agencies should give more attention. One would like more reports on competitive advertising, and on trends in his industry; 1 would like more attention to direct mail and display work; 2 would like more sales and merchandising assistance; 4 would like more research or market surveys; 4 would like more research to advance advertising knowledge. The comments of this last group of 4 are as follows:

From an advertiser (No. 12) expending in excess of $1,000,000:

There are no particular services which we feel the agency should handle in addition to their present performance. However, we do feel that advertising agencies as a group might be far more aggressive in developing new information in regard to advertising; in studying new methods; in bringing to light and correcting bad practices, etc. Too much of this has been left to the advertiser or wholly overlooked. I refer to such matters as forced and artificial circulation; the Crosley radio research; a more scientific basis for outdoor advertising such as Dr. McClintock is now working on, etc.

From an advertiser (No. 22) expending in excess of $1,000,000:

A service which, in our experience, most agencies are lax in, or are unequipped for, is the scientific study of the tools with which they work; a study of the relative pulling power of advertisements, relative value of different sizes of space, positions, media, etc.

From an advertiser (No. 35) expending between $500,000 and $1,000,000:

We feel that advertising agencies have failed to some degree in helping the advertiser solve the problem of media. Advertising rates we consider still inflated. There are still circulation abuses. No satisfying study of duplication has yet been made. The only studies of advertising effectiveness made to date seem to have been sponsored for selfish purposes by publications themselves. Many of them are conflicting. Relative values of pages and fractional pages is as yet a comparatively unexplored field.

We would like to see all of these problems attacked by the agency. We would like to feel more certain that our advertising dollars are being most effectively spent by our present policy of buying mass circulation. We would like to know more definitely what strata this circulation reaches and to what degree. We would like more tangible evidence that full page insertions produce twice or more than twice as many new buyers for our products than half pages. We would like to know the relative value of a page of advertising run in January or February, versus the same page run in July or August. Finally, we would like to be able to buy circulation with all the water of forced subscriptions squeezed out of it, and we would like to buy this circulation at prices consistent with today's deflated market.

These are services we think the agency should perform, that today are not being approached exhaustively. They represent the biggest advertising research problem yet to be seriously undertaken. They offer the advertising agency an opportunity to be of exceptional service to his client.

From an advertiser (No. 47) expending between $250,000 and $500,000:

It often seems to us that an agent, drawing upon the previous experience of many other advertisers, should be able to bring to new campaigns much more exact knowledge about media, size and frequency of insertions, copy appeal, etc., than they do. In general, agents seem to act more upon hunch and impulse than upon precedent.

Five other advertisers criticize their agency service as follows: 1 says he would like more thought on his problems by the agency principals; 1 says his agency offers more service than it can efficiently perform; 1 says he would like better copy; 1, better personnel; 1, more emphasis on most important functions.

The remaining 85 advertisers either name no additional service which they would like their agency to perform or say specifically that they get all the service they are entitled to or want.

WHAT ADVERTISERS THINK OF THIS SERVICE MECHANISM AS A WHOLE

Advertisers were also asked these questions:

Setting aside the question of compensation, what do you think of the advertising agency as a business mechanism? Is it a necessary or desirable one for you to have available? Would you prefer to handle your advertising without one? Why?

Of the 101 advertisers who answered, 86 express the opinion that an advertising agency is either a necessary or desirable business mechanism for them to have available. The remaining 15 advertisers believe that it would be to their advantage to handle their advertising without an agency if they could buy advertising space direct at the publisher's net rate.

The principal reasons given by the 86 advertisers who believe an agency necessary or desirable in their case are: (1) That they could not maintain an advertising staff of equal ability and variety at as low a cost as 15 per cent. (2) That the outside, independent point of view is a very valuable feature of agency service. (3) That the experience which the agency has with a variety of advertising problems makes its advice more valuable than that of a group confined to one problem.

Typical expressions of these points of view are as follows:

From an advertiser (No. 3) expending several million dollars annually:

It is necessary for us to have an agency available, and we would prefer not to handle our advertising without one. Even with our large appropriation, we could not afford to hire and organize on a full-time basis within our own company, the executive, copy, art, production, media, radio, merchandising and research staffs which we require. Furthermore, the advertising experience gained by the agency serving us on the large number of accounts other than ours which they serve is valuable to us, in that it places our thinking on a broader base, lessens the possibility of error and keeps us in close touch with new developments.

From an advertiser (No. 21) expending in excess of $1,000,000:

It is our opinion that the advertising agency is a necessary and desirable business mechanism. We would not prefer to handle our own advertising without one, because we believe it would be impossible to build a department within our own organization which could carry out our advertising programs as effectively at as low a cost as at present. We believe that the diversified business of a good advertising agency enables it to engage creative talent which we could not

afford for our advertising alone. In making the above statement we are assuming that we could receive the benefit of the commissions allowed agencies by media.

From an advertiser (No. 27) expending between $500,000 and $1,000,000:

There is no doubt in our mind here that it is most desirable to have our advertising handled by a good agency and we would much prefer to handle it that way; not only due to the fact that it would be less expensive under present commission arrangements, but also due to the fact that a good agency is in a position to perform services and give us thinking which keeps us out of the rut into which we would very likely sink if we were to establish our own advertising department to handle all phases of our advertising.

Typical expressions of the point of view of the 15 advertisers who would prefer to handle their business direct are:

From an advertiser (No. 15) expending in excess of $1,000,000:

If the agency business had not started as it did, that is, as an actual space selling organization, doubtless some form of business would have been developed. For instance, starting today, with no past history, there would be many firms offering specialized service to advertisers. Hence your question might be answered this way: It is desirable to have an agency available. It would be preferable to handle our advertising without one were it not for the element of cost.

From an advertiser (No. 26) expending between $500,000 and $1,000,000:

Would prefer to handle advertising direct and so eliminate duplication of effort. This applies to sales contacts on part of publications, creation of technical copy, checking of insertions.

From an advertiser (No. 88) expending less than $100,000:

If magazines did not give agency commission I question whether this company would continue to use one. Because of the size and completeness of our own advertising department we could handle the entire work with less money than the agency receives from magazine commissions.

With regard to these opinions about the agency mechanism as a whole, there is some variation to be noted as between advertisers of different size.

Of 25 advertisers whose expenditures exceed $1,000,000 (including 5 whose expenditures exceed $5,000,000), 23 believe an agency necessary or desirable and 2 would prefer to handle their advertising direct.

Of 59 advertisers with expenditures between $100,000 and $1,000,000 there are 51 who believe the agency necessary or desirable and 8 who would prefer to handle their advertising direct.

Of 17 advertisers with expenditures under $100,000 there are 12 who believe an agency necessary or desirable and 5 who would prefer to handle their advertising direct.

It may also be noted that of the 15 advertisers of all sizes who would prefer to handle their advertising direct, the majority appear to be those with technical or semi-technical products, having advertising departments handling various non-commissionable forms of advertising. As this statement is based in part on indirect evidence, the exact number of such advertisers among the 15 cannot be given.

THE NATURE OF ADVERTISER-AGENCY RELATIONSHIPS

What kind of relationship has the modern agency developed with the advertisers it serves? To determine this, advertisers were asked:

What kind of relationship exists between you and your agency?

Does the agency have access to your confidential plans and figures?

Do its principals have contact with yours? Is the agency a partner in the promotion of your business or merely a useful mechanism for performing certain advertising functions?

Every one of the 101 advertisers from whom information was secured made some kind of answer to these questions. The composite pictures formed by the various answers reflect every degree of relationship, from one where there is an extremely close and intimate partnership to one in which the agency bears about the same relationship to the advertiser as does any other outside supplier of services or goods.

With 54 of the 101 advertisers the agency relationship may be described as one of complete confidence and mutuality of interest. These are advertisers who so describe the relationship in general terms; who give their agents full access to all pertinent facts and figures; who maintain contact between the principals of the two organizations; and who definitely view their agency as a partner or part of their organization in their promotion activities. Typical expressions by advertisers included in this group are the following:

From an advertiser (No. 1) expending in excess of $1,000,000:

Our relation with our agency is very close and frank. We give them access to any of our confidential plans and figures essential to proper execution of their functions. The principals have constant contact with our principals and advertising executives.

Our agency is a partner in so far as advertising problems are concerned, realizing that successful advertising will make possible increased advertising budgets. We do not call on the agency for advice on other phases of our business.

From an advertiser (No. 17) expending in excess of $1,000,000:

The closest possible relationship exists between us and our agencies; they have access to our confidential plans and figures and their principals are in almost daily contact with the principal executives of this company.

From an advertiser (No. 35) expending between $500,000 and $1,000,000:

We definitely make our agency a partner in the promotion of our business. It has access to our plans, figures and facts on all phases of distribution. Its principals have almost weekly contact with our president and our sales manager as well as our advertising manager. Our agency is made an active factor in the formulation of all plans.

From an advertiser (No. 45) expending between $250,000 and $500,000:

We work very closely with our agency and we make available to the agency principals our confidential plans and figures. In our case it is not exaggerating to say that our agency is virtually a partner in our business.

From an advertiser (No. 66) expending between $100,000 and $250,000:

Our agency has access to all figures and facts that concern our business and are considered as partners in the promotion of this business, with its principals having contact with our principals in the same sense that our company executives cooperate.

A middle group of advertisers, 31 in all, express a somewhat modified form of the above views. Their agency relationships are cordial but somewhat less confidential and intimate than those of the first group. They do not look upon their agency as a partner but as a mechanism performing certain well-defined functions, in a semi-confidential capacity. This group is represented by such views as these:

From an advertiser (No. 10) expending in excess of $1,000,000:

A very confidential and intimate relationship exists between us. They have access to our company plans and figures. The principals of our company have contact almost entirely with the principals of the agency. While we have a very sentimental regard for the personalities involved, the primary function of our agency is that of performing the ordinary, normal advertising functions.

From an advertiser (No. 58) expending between $250,000 and $500,000:

The most cordial, confidential relationship exists between ourselves and our agency, and they have full access to all plans and figures which will be of any value to them in working out their programs.

Their principals have frequent contact with our principals, although as is true in most agency relationships, the bulk of the thinking and planning is done by personnel who would not be termed principals.

I would say that we consider the agency primarily as a useful mechanism for performing certain definite advertising functions rather than as a partner in the promotion of our business as a whole.

From an advertiser (No. 88) expending less than $100,000:

A close relationship exists between ourselves and our agency which permits it access to any of our confidential plans or figures. However, it remains mainly a useful mechanism for performing routine functions, and does not serve particularly in the promotional phases of our business.

A third group, 16 in all, and constituting the remainder of the 101 advertisers not included in the two preceding groups, describe their agency relationship in terms which indicate little or no confidential or counseling relationship, and only a more or less useful service relationship. Typical expressions in this group are:

From an advertiser (No. 60) expending between $100,000 and $250,000:

Our agency is merely a useful mechanism. While its principals have contact with our officials, the agency is not considered a partner nor have its members access to our confidential plans and figures.

From an advertiser (No. 71) expending between $100,000 and $250,000:

Our agency does not have access to our confidential plans and figures. Its principals do not contact ours. It serves as a useful mechanism for performing certain advertising functions.

From an advertiser (No. 92) expending less than $50,000:

Our agency does not have access to confidential plans or figures. Its principals maintain contact with this department (advertising) but its activities in our behalf are confined entirely to the performance of advertising functions rather than sales promotion plans of other types or kinds.

As between advertisers of different sizes a striking difference is noticeable in the response to these questions on agency relationship. Of the 25 advertisers expending more than $1,000,000, 18 are in the first group above—those describing a completely confidential relationship; 7 are in the second class—those describing a modified confidential relationship; and none is in the third class where a complete lack of any close relationship is indicated.

In brief, of the 16 advertisers expressing a lack of any close relationship with their agency, none appears in groups with expendi-

tures exceeding $250,000. Of these 16 advertisers, 9 are in the group with expenditures between $100,000 and $250,000 (out of 25 advertisers in that group) and the other 7 are found in the group expending less than $100,000 (out of 17 in that group).

It may be recalled, in this connection, that these size groups are based on expenditures through agencies, and do not represent total advertising expenditures. In the smaller expenditure groups appear many substantial business concerns, but ones whose expenditures for publication or consumer advertising are relatively small. It is this type of advertiser who often appears among those who say that they have no close or intimate advertising agency relationship.

RESULTS OF AGENCY SERVICE TO ADVERTISERS

In an effort to make some appraisal of the results to advertisers of agency service and of agency-advertiser relationships, advertisers were asked:

Has your agency ever made any important contribution to the upbuilding of your business? What was the nature of it—copy idea, sales plan, merchandise suggestion, etc.?

Information on this subject is supplied by 100 advertisers. Of these, 5 say they are unable to answer definitely because close cooperation makes it impossible to say who originates ideas; and 5 more say their agencies are too new to have had an opportunity to make much contribution. Of the remaining 90 advertisers 52 say definitely that their agency has made important contributions to the upbuilding of their business. The nature of these contributions and the number of times each is mentioned is as shown in Table VIII.

TABLE VIII

Copy ideas	36
Sales plans	12
Merchandising ideas	11
Product ideas and uses	9
Sound policies	3
Packaging ideas	3
"Many" ideas	2
Business equipment	1

Representative expressions of the 52 advertisers included in this group are the following:

From an advertiser (No. 3) expending in excess of $1,000,000:

Over a period of twelve years I believe our agency has made important contributions in promoting the sale of our products; packaging our products; developing copy ideas, which have proven their ability to produce sales; preparing sales plans and merchandising proposals.

From an advertiser (No. 22) expending in excess of $1,000,000:

Naturally our agencies have made contributions to the upbuilding of our business through sales plans, suggestions for products, copy ideas, etc. We have rather accepted this as a matter of course and something to be expected of them.

From an advertiser (No. 37) expending between $500,000 and $1,000,000:

Our agency has made important contributions to the upbuilding of our business. Years ago the head of our agency made a very valuable suggestion which over a period of years has increased our sales volume by millions of dollars and our net profits by hundreds of thousands. . . . . Recently the agency again contributed greatly in the way of advice and suggestion as the result of a survey made by it among housewives.

(Omissions made to avoid identification.)

From an advertiser (No. 49) expending between $250,000 and $500,000:

Our agency has made many important contributions to the upbuilding of our business. The least of these were copy ideas. From time to time we have received from them ideas which formed the basis of our major merchandising plans.

From an advertiser (No. 62) expending between $100,000 and $250,000:

Our agency has made some splendid contributions in regard to copy ideas. In our opinion, no agency can give an aggressive organization much help relative to sales plans and merchandising.

From an advertiser (No. 95) expending less than $50,000:

Agency has made numerous contributions to the upbuilding of our sales, in the nature of ideas, copy, and advertising plans.

An additional 19 advertisers say that their agency has made no one outstanding contribution but has been generally helpful and valuable. Examples of such expressions are:

From an advertiser (No. 8) expending over $1,000,000:

The agency has of course contributed constructive things on occasions; but nothing really outstanding toward the upbuilding of our business other than the general quality of copy for advertising.

From an advertiser (No. 38) expending between $500,000 and $1,000,000:

No single outstanding contribution has ever been made by our agency, but consistent sound suggestions have been forthcoming.

From an advertiser (No. 64) expending between $100,000 and $250,000:

We have received many valuable, usable ideas from our agency. While no one is outstanding, the aggregate has been a contribution to the solution of our own sales and management problems.

The remaining 19 advertisers definitely say that their agency has made no important contribution to the upbuilding of their business.

The entire picture of the answers of 100 advertisers to this question is shown, by size groups, in Table IX.

TABLE IX

QUESTION: HAS YOUR AGENCY EVER MADE ANY IMPORTANT CONTRIBUTION TO THE UPBUILDING OF YOUR BUSINESS?

Answers	Advertisers Expending					
	Over $1,000,000	Between $500,000 and $1,000,000	Between $250,000 and $500,000	Between $100,000 and $250,000	Under $100,000	Total
Yes	19	9	9	11	4	52
No outstanding contribution but generally valuable	3	4	2	6	4	19
No	.....	.....	5	6	8	19
Can't answer	3	2	2	2	1	10
Total	25	15	18	25	17	100

An additional point of interest with regard to these statements concerning agency contributions is to be found in an examination of the answers in relation to the nature of the products advertised.

Of the 52 advertisers specifically crediting their agencies with important contributions to their business, 29 are advertisers of low sales-unit specialties. Of the 36 in this group of 52 who named "copy ideas" as the important contribution, 21 are advertisers of low sales-unit specialties.

Of the 19 advertisers who name no outstanding contribution, but value the total general contributions as important, 5 are advertisers of low sales-unit specialties.

And of the 19 advertisers who definitely say that no important contribution has been made by their agency, 3 are advertisers of low sales-unit specialties.

HOW AGENCIES CHARGE FOR THEIR SERVICES

No subject regarding advertiser-agency relationships receives more trade discussion than that of the financial arrangements between them. Rumors and gossip concerning "cut rates" and "deals" in these arrangements are rife throughout all branches of the advertising business. Many of these rumors seem to originate in advertising agencies themselves.

Because the advertising agency structure is built upon the presumption of a uniform price basis, these rumors are destructive to confidence in the structure as a whole. Also, the degree of variation in this basic price should in itself be some indication of the degree to which the price structure runs counter to natural price laws. For these two reasons it was believed to be important to attempt to secure a reliable estimate of the actual amount and nature of variation in agency charges.

The problem of securing reliable data for such an estimate was admittedly difficult, and, whether the method pursued here has secured it, each reader must judge. It is the belief of the examiner, based on the nature of the detailed reports he secured, that he received a true report of the agency arrangements in 1932 of those who answered his queries. By certain personal examinations and cross-checking, he tried to verify important doubtful cases. These facts, plus certain allowances made for non-answers, make him believe that the final estimate given hereafter is approximately correct.

Queries on this subject were addressed to the 320 advertisers listed at the beginning of this section. This list, it may be repeated, includes all members of the Association of National Advertisers, all of the 100 leading magazine advertisers not members of this association, and a number of additional magazine advertisers whom trade rumors identified with special agency arrangements.

Of the 320 advertisers in this list, 76 had no expenditures for magazine advertising in 1930, the latest year for which figures were available in Crowell's *National Markets and National Advertising*.

The remaining 244 advertisers had expenditures in magazines totaling 59 per cent of the total 1930 magazine expenditures, as recorded in the above book. They represented 18.5 per cent of the total number of magazine advertisers expending over $10,000 in that year.

TABLE X

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

I. Number of advertisers paying card rates and less than card rates for space and time

Expenditures through Agency 1931	Pay Card Rates*	Pay Less than Card Rates†	Pay Service Fee‡	Total Number Agency Relationships (206 Advertisers)
Under $50,000	19	3	2	24
$ 50,000 to $ 100,000	20	2	1	23
100,000 to 250,000	51	8	4	63
250,000 to 500,000	25	7	.....	32
500,000 to 1,000,000	32	2	.....	34
Over $1,000,000	42	3	.....	45
Volume not given	2	.....	.....	2
Total	191	25	7	223

* *Card rates.*—Included in this classification are all advertisers whose answers for publication, radio, and outdoor advertising where used are any of the following, or their equivalent: (1) for publications allowing an agency commission of 15 per cent: card rates, net cost plus 16⅔ per cent (Ayer contract); (2) for publications allowing an agency commission of less than 15 per cent: card rates, net plus 15 per cent, net plus 16⅔ per cent, net plus 17.65 per cent, 15 per cent on card rates; (3) for publications allowing no agency commission: card rates (where other major media are at card rates), card rates plus 15 per cent, 16⅔ per cent, 17.65 per cent or plus service charge; (4) for radio time: card rates or 15 per cent on cost; or net plus 16⅔ per cent; (5) for outdoor advertising: card or plant-owner's gross rates. Also included in this group are 20 advertisers whose answers as to rates paid for individual types of advertising are not clear, but who answered "No" to the general question: "Do you receive in any form what you think would be considered a rebate of part of the agent's commission?"

† *Less than card rates.*—See Table XI for advertisers so classified.

‡ *Service fee.*—Includes all who have annual or monthly fee against which all commissions are credited and whose answers indicate that fee exceeds total commissions.

To the entire list of 320 advertisers was sent the Questionnaire No. 1 shown in the Appendix. Replies were received from 206 advertisers, or 64 per cent of the total number queried, and about 83 per cent of the magazine advertisers in the list. These 206 advertisers gave answers covering 223 advertising agency relationships.

These replies have been tabulated in two general classifications: (1) to show the number of advertisers who receive what may be called a cash rebate—that is, those paying less than full "card rates" on publication, outdoor, or radio advertising done through their agency; (2) to show variations in charges for various kinds of

preparation and collateral services to those advertisers who are classified in (1) as paying full card rates.

Table X shows that of the total 223 advertiser-agency relationships reported, 191 are classified as being at full card rates, 25 at less than card rates, and 7 as having service fee arrangements, against which all commissions are credited.

TABLE XI

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

II. Nature of arrangement where less than card rates is paid for space and time

Arrangement	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
15 per cent on the net	.....	1	4	2	1	.....	8
5 per cent	.....	.....	2	.....	.....	.....	2
2½ per cent	.....	.....	.....	.....	.....	1	1
House agency	.....	.....	.....	1	.....	.....	1
Not stated	3	1	2	3	.....	.....	9
Net cost of space on publications allowing less than 1.5 per cent; other media at card rates	.....	.....	.....	.....	.....	1	1
Radio time net; other media at card rates	.....	.....	.....	.....	1	1	2
Radio and outdoor net; other media at card rates	.....	.....	.....	1	.....	.....	1
Total	3	2	8	7	2	3	25

Table XI shows what the 25 advertisers, classified as paying less than card rates, report their arrangement to be. It will be noted that there are included in these 25 advertisers, 8 whose arrangement is "15 per cent on net" for all commissionable media, and 4 who pay less than card rates on only certain classes of media.

ESTIMATE OF AMOUNT OF DIRECT REBATING

In Table XII is given a computation of the estimated percentage of total reported volume done at less than card rates. In examining this computation and drawing conclusions from it, several considerations must be held in mind.

First, this computation is believed to be fairly reliable and to contain a small margin of error for the 204 advertisers and 221 agency relationships represented in it.

Second, some of the "less than card-rate" advertisers included in it do not receive a rebate on all the media used. The entire volume of these advertisers is nevertheless included in the estimate.

TABLE XII*

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

III. Computation from Table X of estimated percentage of total volume reported which is classified at less than card rates

Expenditures through Agency, 1931	Estimated Average Expenditures	Total Number Agency Relationships	Total Estimated Volume	Number Relationships at Less than Card Rates	Estimated Volume at Less than Card Rates	Per Cent of Volume at Less than Card Rates
Under $50,000	$ 30,000	24	$ 720,000	3	$ 90,000	12.5
$ 50,000 to $ 100,000	75,000	23	1,725,000	2	150,000	8.6
100,000 to 250,000	175,000	63	11,025,000	8	1,400,000	12.6
250,000 to 500,000	375,000	32	12,000,000	7	2,625,000	21.8
500,000 to 1,000,000	750,000	34	25,500,000	2	1,500,000	5.8
Over $1,000,000	2,000,000	45	90,000,000	3	6,000,000	6.6
Total		221†	$140,970,000	25	$11,765,000	8.3

* It will be noticed that the estimated average expenditures on which this computation is based are the middle figures of the volume classifications, except in the highest and lowest groups, where arbitrary estimated averages are used. For the group under $50,000 an average of $30,000 is used because the nature of the original list suggests that no advertisers with expenditures under $25,000 were likely to be in it. Therefore $30,000 is probably a conservative figure.

For the group over $1,000,000 the figure of $2,000,000 selected as an average was arrived at in this way: This group has in it 5 identified advertisers whose 1931 expenditures probably totaled at least $45,000,000. This would leave only $45,000,000 for the other 40 advertisers in this group, so that the estimated average of $2,000,000 is, if anything, low. As none of the 5 identified large advertisers is among the 3 classified as paying less than card rates, the estimated average is used for these 3. It will be obvious that the most important possible margin of error affecting this whole computation is in this over $1,000,000 group.

† Minus 2 who reported no volume.

Third, the volume here reported is heavily weighted by the proportion of very large advertisers who replied. In this computation the proportion of total volume from advertisers expending over $1,000,000 is nearly 65 per cent, a much higher percentage than would be found from such advertisers in the entire national advertising volume.

Fourth, that, as in this computation the percentages of "less than card-rate" volume are higher in the lower brackets, the total percentage figure in the computation would probably be higher if a more representative number of advertisers under $500,000 had answered.

Fifth, that, among the advertisers on the original list from whom information was not secured, it appears probable that there was a slightly larger percentage of advertisers who would have been classified as paying less than card rates.

TABLE XIII

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

IV. What card-rate advertisers say they pay agency for radio talent

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
Cost plus 15 per cent	3	3	7	6	9	15	43
Cost plus 16⅔ per cent	.....	.....	1	.....	1	3	5
Cost plus fee	.....	.....	2	1	1	2	6
Cost plus fee or 15 per cent as agreed	.....	.....	.....	.....	2	.....	2
Flat cost per program	1	.....	1	.....	.....	1	3
By arrangement	.....	1	.....	1	.....	.....	2
Card rate	.....	.....	.....	1	1	.....	2
No commission added	.....	.....	2	5	6	14	27
Supply own	1	.....	.....	.....	.....	.....	1
Buy direct	.....	.....	3	.....	1	.....	4
Don't use	8	12	26	6	6	4	62
No answer	.....	1	7	4	2	.....	14
Total	13	17	49	24	29	39	171*

* Omitting answers from 20 advertisers who, as explained in note to Table X, gave no clear information as to details of charges. The same omission applies to Tables XIV–XIX.

Taking all the above and other factors into consideration, the examiner believes that not less than 10 per cent nor more than 15 per cent of the total national advertising expenditure in 1932 was placed at less than card rates.

VARIATIONS IN CHARGES FOR COLLATERAL SERVICES

Tables XIII–XXIII show what the advertisers previously classed as paying card rates pay their agencies for preparation and collateral services.

TABLE XIV

Advertiser-Agency Financial Arrangements in 1932

V. What card-rate advertisers say they pay agency for investigations and research

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
No charge	2	4	12	6	8	7	39
No charge except travel expense			1				1
No charge except travel and clerical expense		1					1
No charge except special work		1			5	16	22
No charge except for work done at our request			1	1			2
No charge except agency's travel and hotel expense outside New York				1			1
No charge on small jobs; major jobs, travel and salary expense plus fee					1		1
No charge except on extensive work, then flat sum agreed on in advance					1		1
No charge sometimes, sometimes at cost					1		1
At cost	1	1	2	5	4	8	21
At cost plus 15 per cent	2	1	3	2	1	5	14
At cost plus 16⅔ per cent			2				2
At cost for extra work	1		1	1			3
At cost and expenses plus 1½ times salaries of field men and clerks		1					1
At cost plus overhead			1				1
At cost plus 10–15 per cent			1				1
At cost plus 15 per cent or special fee					1		1
Fee	1		6	1	1	1	10
Fee plus travel expense		1					1
Fee plus expenses						1	1
Subject to advance agreement	1	1	4	2	2		10
Subject to advance agreement usually cost divided					1		1
Per diem rate			1				1
$40 per day for executive doing research plus traveling			1				1
Flat charge where work is done by agency entirely; where outside service is employed to work with agency the charge is based on that made by outside party and 15 per cent for agency's contribution				1			1
Surveys made by agency staff—cost; surveys by outside organizations—cost plus 15 per cent				1			1
On market surveys, approximate cost determined beforehand and usually divided on a 50-50 basis. On special surveys, cost determined beforehand, and we are billed only for estimated cost in case it is exceeded				1			1
Do not use	3	3	5	1		1	13
Do not use agency	1		3	1	3		8
No answer	1	3	5				9
Total	13	17	49	24	29	39	171

TABLE XV

Advertiser-Agency Financial Arrangements in 1932

VI. What card-rate advertisers say they pay agency for art work

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
Cost	1	3	5	7	8	7	31
Cost if volume above $100,000			1				1
Cost plus 10 per cent			1				1
Cost plus 15 per cent	11	14	34	15	17	27	118
Cost plus 16⅔ per cent			2		3	4	9
Cost plus 17.65 per cent	1		1				2
Cost plus 15–20 per cent				1			1
Cost plus 15 per cent or special fee					1		1
Flat sum			4				4
If "outside" artist—his bills plus. Generally buy direct from artist now			1				1
Charge only for special service						1	1
Do not use agency				1			1
Total	13	17	49	24	29	39	171

TABLE XVI

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

VII. What card-rate advertisers say they pay agency for typesetting, engravings, electros, etc.

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
Cost	2	4	5	6	8	8	33
Cost if volume over $100,000	.....	.....	1	.....	.....	.....	1
Cost plus 10 per cent	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent	10	13	36	18	17	27	121
Cost plus 16⅔ per cent	.....	.....	2	.....	3	4	9
Cost plus 17.65 per cent	1	.....	1	.....	.....	.....	2
Flat price	.....	.....	2	.....	.....	.....	2
Do not use agency	.....	.....	.....	.....	1	.....	1
No answer	.....	.....	1	.....	.....	.....	1
Total	13	17	49	24	29	39	171

TABLE XVII

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

VIII. What card-rate advertisers say they pay agency for forwarding material and instructions to media

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
No charge	1	1	8	3	5	6	24
Cost (i.e., of postage or express)	10	14	32	19	24	27	126
Cost plus 10 per cent	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent	1	2	2	1	.....	5	11
Cost plus 16⅔ per cent	.....	.....	2	.....	.....	1	3
None	.....	.....	3	.....	.....	.....	3
Regular rates	.....	.....	1	.....	.....	.....	1
No answer	1	.....	.....	1	.....	.....	2
Total	13	17	49	24	29	39	171

TABLE XVIII

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

IX. What card-rate advertisers say they pay agency for preparing direct mail, circulars, booklets, etc.

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
No creative charge	.....	2	7	4	5	8	26
No creative charge except in special cases	.....	.....	1	1	1	.....	3
Cost	.....	1	2	5	7	7	22
Cost plus 10 per cent	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent	5	5	11	3	10	17	51
Cost plus 16⅔ per cent	.....	.....	1	.....	1	2	4
Cost plus 17.65 per cent	1	.....	1	.....	.....	.....	2
Cost plus 15 per cent except when quantities large, then percentage scaled	.....	.....	1	.....	.....	.....	1
Cost plus copy charge	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent if agency handles printing, otherwise fee	.....	.....	.....	2	.....	.....	2
Cost plus 15 per cent on new work; reprints plus 5 per cent	.....	.....	.....	.....	1	.....	1
Special fee agreed on	2	5	9	1	4	1	22
Flat rate	.....	1	1	.....	.....	1	3
Time charge	.....	.....	1	2	.....	.....	3
Do not use	.....	1	3	.....	.....	1	5
Do not use agency	5	1	8	5	.....	2	21
No answer	.....	1	1	1	.....	.....	3
Total	13	17	49	24	29	39	171

TABLE XIX

Advertiser-Agency Financial Arrangements in 1932

X. What card-rate advertisers say they pay agency for preparing dealer and salesmen's promotion material, broadsides, portfolios, etc.

Charges	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Total
No creative charge	.....	2	9	5	4	7	27
No creative charge except in special cases	.....	.....	1	1	.....	.....	2
Cost	.....	1	1	5	3	6	16
Cost plus 10 per cent	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent	4	4	12	4	12	18	54
Cost plus 16⅔ per cent	.....	.....	1	.....	5	2	8
Cost plus 17.65 per cent	1	.....	1	.....	.....	.....	2
Cost plus copy charge	.....	.....	1	.....	.....	.....	1
Cost plus 15 per cent if agency handles printing, otherwise fee	.....	.....	.....	2	1	.....	3
Cost plus 15 per cent on new work; reprints plus 5 per cent	.....	.....	.....	.....	1	.....	1
Special fee agreed on	2	5	8	1	2	1	19
Flat rate	.....	.....	.....	.....	.....	1	1
Time charge	.....	.....	2	1	.....	.....	3
Do not use	.....	2	3	.....	.....	1	6
Do not use agency	6	2	9	5	1	3	26
No answer	.....	1	.....	.....	.....	.....	1
Total	13	17	49	24	29	39	171

TABLE XX

Advertiser-Agency Financial Arrangements in 1932

XI. What card-rate advertisers said to the question: "Does your agency pay the salaries in part or whole, of any men or women working as part of your advertising or sales departments?"

Answer	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Volume Not Given	Total
No	19	20	51	25	31	39	2	187
One man in conducting check-ups in retail stores	.....	.....	.....	.....	1	.....	.....	1
One person's salary	.....	.....	.....	.....	.....	2	.....	2
Publicity men	.....	.....	.....	.....	.....	1	.....	1
Total	19	20	51	25	32	42	2	191

TABLE XXI

Advertiser-Agency Financial Arrangements in 1932

XII. What card-rate advertisers said to the question: "Does your agency pay salaries, fees, or commissions in connection with your account to any person not a regular and full-time member of the agency organization? If so, for what services?"

Answer	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Volume Not Given	Total
No	17	20	47	24	27	35	2	172
Special research workers	2	.....	.....	.....	1	4	.....	7
Consultants	.....	.....	.....	.....	1	3	.....	4
Copywriters for consumer campaigns	.....	.....	1	.....	.....	.....	.....	1
Publicity writers for temporary special jobs	.....	.....	.....	1	1	.....	.....	2
On rare occasions for help on special type and copy	.....	.....	.....	.....	1	.....	.....	1
Once or twice in two years to outsiders for technical advice as in show-window display, but particularly in writing of articles	.....	.....	1	.....	.....	.....	.....	1
Fee to special artist for exclusive right to his work	.....	.....	.....	.....	1	.....	.....	1
Radio talent for programs not contracted for by us direct with the producer	.....	.....	1	.....	.....	.....	.....	1
No answer	.....	.....	1	.....	.....	.....	.....	1
Total	19	20	51	25	32	42	2	191

TABLE XXII

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

XIII. What card-rate advertisers said to the question: "Does any member or employee of your firm share directly or indirectly in the profits of your agency?"

Answer	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Volume Not Given	Total
No	18	20	51	25	31	42	2	189
Yes	1	.....	.....	.....	.....	.....	.....	1
Some of the directors own stock in the agency	.....	.....	.....	.....	1	.....	.....	1
Total	19	20	51	25	32	42	2	191

TABLE XXIII

ADVERTISER-AGENCY FINANCIAL ARRANGEMENTS IN 1932

XIV. What card-rate advertisers said to the question: "Does any member of the agency staff devote his time exclusively or in large part to sales work for your company without extra charge from the agency?"

Answer	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	Over $1,000,000	Volume Not Given	Total
No	18	19	49	21	30	36	2	175
Yes	1	1	.....	1	1	.....	.....	4
At least two members of the agency staff devote a large part of their time to working for our company on ideas for sales promotion and advertising without any extra charge	.....	.....	1	.....	.....	.....	.....	1
Agency's vice-president in charge of merchandising devotes whatever time is needed to establish contacts with important accounts	.....	.....	.....	1	.....	.....	.....	1
The account executive in the capacity of counsel	.....	.....	.....	1	.....	.....	.....	1
Field-promotion work	.....	.....	.....	.....	.....	2	.....	2
A number of people	.....	.....	.....	.....	.....	1	.....	1
Occasionally	.....	.....	1	.....	.....	3	.....	4
Covering special assignments only	.....	.....	.....	1	.....	.....	.....	1
In rare instances for sales work, we pay their expenses but not for their time	.....	.....	.....	.....	1	.....	.....	1
Total	19	20	51	25	32	42	2	191

THE EXPERIENCE OF ADVERTISERS WITH "CUT RATE" OR "HOUSE" AGENCIES

The preceding record of how agencies charge advertisers for their different services was compiled from the replies of 206 advertisers to Questionnaire No. 1 (see Appendix), which was devoted wholly to this subject.

The results from this questionnaire may be compared with those secured from answers to a question included in Questionnaire No. 2 (see Appendix). This question was: "Have you ever had experience with a 'cut rate' or 'house' agency? What was the result of it?"

Answers to this question were secured from 99 advertisers. Of these 99 advertisers 86 say they have never had any experience with a "cut rate" or "house" agency, and 13 say they have had such experience.

Of the 86 advertisers answering "No" to this question, 2 confine their answer to "cut rate" agencies and 1 confines his answer to "house" agencies; 2 more say that their advertising manager had experience with a "cut rate" or "house" agency in a previous connection, and both of these say the experience was unsatisfactory.

Of the 13 advertisers who answer "Yes" to this question, 3 are now using "cut rate" or "house" agencies—1 wholly and 2 for part of their business.

Of the 10 advertisers who formerly used such agencies, 7 say they discontinued the arrangement because the service proved inadequate; 1 says the service was fairly satisfactory but that he prefers his present agency at full commission; 1 says his present agency gave him a cut rate when his service needs were smaller; and 1 says his previous "cut rate" service was just as good.

The 2 advertisers now using a "cut rate" or "house" agency for part of their business expend more than $1,000,000. The advertiser now using a "cut rate" agency for all of his business expends less than $100,000.

Of the 10 advertisers who formerly used a "cut rate" or "house" agency, 5 now expend more than $1,000,000; the expenditures of 3 are in the $500,000 to $1,000,000 group; of 1 between $250,000 and $500,000; and 1 under $100,000. Thus, taking the different-sized groups of these advertisers as a whole we find the following:

Of 25 advertisers expending over $1,000,000 at the present time, 18 say they have never had experience with a "cut rate" or "house" agency; 5 have had such experience and found it unsatisfactory; and 2 now use such agencies for part of their business.

Of the 59 advertisers with expenditures between $100,000 and $1,000,000, 53 have never had "cut rate" or "house" agency experience; 4 have had such experience and found it unsatisfactory; 2 did not answer.

Of 17 advertisers expending less than $100,000, 15 have never used a "cut rate" or "house" agency; 1 has, and found the service inadequate; 1 is still using such an agency.

WHAT ADVERTISERS THINK ABOUT THE AMOUNT OF AGENCY COMPENSATION

Advertisers were asked: "What do you think about agency compensation *in your own case?* Do the commissions earned on your account compensate your agency fairly, excessively, or too little? If you were employing your agency on a fee basis would you be willing to pay an amount equivalent to present commissions on your account?"

Nine of the 101 advertisers give no specific answers to these questions as regards their own case. Some of these feel that they are unable to answer because, knowing nothing of agency costs or profits, they have no basis for judgment. Others are classified as not answering because they merely express general opinions about the agency-compensation method (such as "it is fundamentally unsound") and do not commit themselves to an opinion of its workings in their own case.

Of the remaining 92 advertisers, 19 definitely say that they consider their agent's compensation excessive. Of these 19 there are 3 who now use an agent only for placing service; 8 who consider themselves equipped to handle all or part of the agent's work at a lower cost; leaving 8 who value all the services received from their agency, and who would prefer not to handle their advertising direct, yet believe the cost excessive. Representative of this last group of 8 are the following expressions:

From an advertiser (No. 5) expending in excess of $1,000,000:

We believe that the commissions earned on our account compensate our agency excessively. This is due to the nature of our account, however, because in the past our entire appropriation has been devoted to magazine advertising. . . . . If we were employing our agency on a fee basis, we would not be willing to pay an amount equivalent to their present commissions.

From an advertiser (No. 30) expending between $500,000 and $1,000,000:

Frankly, we think the commissions earned on our account compensate our agency excessively. If we were paying our agency on a fee basis, we would not be willing to pay an amount equivalent to the present commissions.

From an advertiser (No. 52) expending between $250,000 and $500,000:

On the whole, we are continuously looking for ways and means of getting our agency to earn the commissions which they receive. We are always presuming that they give us the best possible copy and that, for this, they are satisfied to accept the commissions on the list of magazines with which we have started the season.

We cannot understand why they are entitled to extra compensation merely for selecting added media, since the amount of work involved is practically the same. It is no more work for them to develop a campaign for a publication of 1,000,000 circulation than it is for one of 100,000 circulation—and the difference in compensation does not seem to be justified by the effort expended.

We have no doubt but that our agency is never under-compensated—and there are times when it is over-compensated.

On a fee basis, I cannot conceive that we should have to pay the amount that we are paying at present for the services we receive.

Viewed as tending to fall in the same class as the foregoing 19 advertisers who consider their agency compensation excessive are the following:

One advertiser who has several agencies and who considers some compensated excessively, some fairly, and "in some cases there might be a doubt about the sufficiency."

One advertiser who thinks some services, such as radio, produce excessive compensation.

Four advertisers who think their agent's compensation "at least liberal," and who doubt whether they would be willing to pay an equivalent fee.

Thus altogether 25 out of the 92 advertisers express some degree of doubt or dissatisfaction with their agent's compensation.

As against these 25 advertisers who may be classified as having

some degree of dissatisfaction with the compensation of their agents, there are 67 advertisers who may be classified as entirely satisfied, or at least content, with the present compensation of their agents.

Of these 67 advertisers, however, 10 say that they "make their agents earn" their commissions by the service demands made upon them. They are not sure that, under some other method of compensation, they would require the same services. If they did not, they would be unwilling to pay an equivalent fee.

One other advertiser in this group has a limited net profit arrangement with his agent, under which additional services will be rendered as the account grows, and with this he is satisfied.

Two more advertisers in the group operate on a guaranteed minimum fee to their agents, which they consider satisfactory.

Seven advertisers included in the group of 67 who are satisfied say their agent's compensation is probably too little. But 2 of these, if free to do so, would perform some agency services themselves and pay their agents still less.

Nine of those who are grouped as satisfied are only so because of the present shrunken size of their account. They think that in the past their agents have received an excessive compensation.

Thus, of the entire group of 92 advertisers who expressed an opinion on the subject of compensation, 25 express some degree of dissatisfaction, 24 are satisfied (but with reservations), and 43 believe their agent is compensated fairly or too little (without reservation). Representative of this latter group of 43 are the following expressions:

From an advertiser (No. 24) with probably the largest expenditure in America on a single product:

We have always contended here that the purchase of space in media, is, of itself, inherently mechanical—that the question as to what that space is filled with becomes all important. Indeed, from our point of view, we can make, and have made, with the right copy, an appropriation of $1,000,000 exceed in selling power other appropriations we have seen of five times that amount; and this was solely done by the copy that was used.

Therefore, to us, the question of the merchandising sales ability of a copy-producing agency becomes all important. We demand of our agency untiring service, constant personal attention, and cooperation of certain executives to this one end. When we get this, as we do, the full 15 per cent does not, in our opinion, constitute an excess charge, and we pay it without quibble, without any concessions in price, direct or indirect. Too much cannot be paid for such service —any agency service that does not produce such result is an expense.

From an advertiser (No. 21) expending (1933) over $1,000,000:

It is our feeling that our account, being a medium-sized one, falls into the class which makes the present system of agency compensation fair to both sides. We believe that the agency can make a satisfactory profit on our account and still handle our business with greater effectiveness and less cost than would be possible if we undertook to handle it ourselves. We would be willing to pay a fee equivalent to the present commissions on our account.

From an advertiser (No. 33) expending between $500,000 and $1,000,000:

Commissions earned on our account compensate our agency fairly. If we were to employ our present agency on a fee basis, the amount we would be willing to pay would be approximately equivalent to present conditions provided they continued to render their present full service.

From an advertiser (No. 50) expending between $250,000 and $500,000:

We believe that the compensation earned on our account compensates our agency fairly. In some cases they [the commissions] are too little and possibly in some cases are excessive. However, the balance throughout the year's time is, we believe, a just one. If we were employing our present agency on a fee basis probably we would have to pay an amount equivalent to the present amount on our account, if not a larger amount. The writer is familiar with few businesses which operate on as low a percentage of costs as does the agency.

From an advertiser (No. 67) expending between $100,000 and $250,000:

Considering the type of service and talent available, and the salaries paid said talent by the agency, we do not consider the agency commission in our case excessive.

From an advertiser (No. 85) expending less than $100,000:

In our opinion the agency is fairly compensated for all work done from the commission which they earn at the rate of 17.64 per cent. We are not in favor of a fee basis of compensating an agency, because this is apt to work out to the disadvantage of either the manufacturer or the agency. Advertising cannot be definitely charted twelve months in advance, which makes it extremely difficult to estimate the amount of service that the agency will be called upon to perform during the year.

As between advertisers of different sizes the points of view on the subject of agency compensation are classified as shown in Table XXIV.

From this classification it will be seen that there are all shades of views about agency compensation at all expenditure levels. The

total numbers involved in the different size groups make the use of comparative percentages between these groups unsafe, but it would appear that there is a definite tendency for dissatisfaction with agency compensation to be greatest in the group with appropriations above $1,000,000.

TABLE XXIV

Advertisers with Expenditures	Doubtful	Wholly Satisfied	Satisfied with Reservations	Dissatisfied	Total
Over $1,000,000	4	7	5	9	25
$500,000 to $1,000,000	1	6	5	4	16
250,000 to 500,000	.....	12	1	5	18
100,000 to 250,000	2	8	11	4	25
Under $100,000	2	10	2	3	17
Total	9	43	24	25	101

WHAT ADVERTISERS THINK OF THE METHOD BY WHICH AGENCIES ARE COMPENSATED

An effort was made to determine whether, in addition to the *amount* of compensation received by their agency, advertisers felt any disadvantage from the *method* by which it was received. They were therefore asked: "Do you think the present method of compensating agencies works to your disadvantage in any way with your present agency? If so, how?"

Of the 101 advertisers 9 do not answer the question. Two of these 9 misunderstood the question; 1 says he has no way to know. Of the remaining 6 who do not answer, 2 operate on a minimum-fee basis, and 3, under other questions, express general opposition to "the agency system."

Of the remaining 92 advertisers, 58 say they can see no disadvantage to them in the present method of agency compensation. The great majority of these 58 give a simple "No" answer to the question. One of the 58 sees no disadvantage because he has an arrangement which limits his agency's profits; 1 because he receives a cut rate. Of the 58 who see no disadvantage in the method, 50 had previously said that they considered their agent's compensation fair

or too little, 4 had said it was excessive, and 4 had not expressed an opinion on compensation. Several of these advertisers answering "No" amplified their answers as follows:

From an advertiser (No. 1) expending in excess of $1,000,000:

We are conscious of no disadvantage to us arising from the present commission system. Specifically, our agency so thoroughly understands our mutuality of interest that it shows no tendency to urge the use of commissionable media at the expense of activities on which no commission is earned. Even if such a tendency should develop, we are confident of our ability to control it.

From an advertiser (No. 20) expending in excess of $1,000,000:

I don't see how it does. Our agencies know that it is always our privilege to switch to another agency and that, since it is all on the same basis, we are switching only because we think somebody else has more to offer.

From an advertiser (No. 84) expending between $100,000 and $250,000:

I do not feel that the present method of compensating agencies works to our disadvantage as I feel that they are very intelligently selfish.

From an advertiser (No. 94) expending under $50,000:

We do not think the present method of compensating agencies works to our disadvantage, because our agency has been absolutely honest in its recommendations and in its acts.

Thus of 92 advertisers answering this question whether the method of compensating agencies works to their disadvantage, 58 say "No," and 56 of these operate on a straight-commission basis.

Of the 34 remaining advertisers, 9 express a belief that the method works to the disadvantage of advertisers in general but do not say that it has done so in their own case. The remaining 25 advertisers say specifically that it works to their disadvantage.

Of the 9 who express general opinions about the disadvantages of the method of compensation:

Four say it prejudices the agency against the use of non-commissionable media
Two say it encourages the use of high-cost art work, etc.
One says it makes the agency a space seller
One says it produces excessive compensation for agencies in some cases (though he considers his own fair)
One says it creates suspicion of agency recommendations
One says it makes his company executives suspicious of agency recommendations, but not him (an advertising manager)
One says it causes agencies to pay excessive salaries
One says it makes the agency unduly interested in the size of the account

(The foregoing specified objections total more than 9 because some advertisers express more than one objection.)

The 25 advertisers who say specifically that they believe the method of compensation works to their disadvantage give the following reasons:

Three say it forces them to pay for services they don't need (all 3 expend over $1,000,000)
Three say it encourages extravagance in art and mechanical buying, etc. (1 expends over $1,000,000; 1 expends $500,000 to $1,000,000; 1 expends $100,000 to $250,000)
Three say it prejudices their agency against the use of non-commissionable forms of advertising (2 expend over $1,000,000; 1 expends $250,000 to $500,000)
Three say it produces excessive compensation in their case (1 expends over $1,000,000; 1 expends $100,000 to $250,000; 1 expends under $50,000)
Three say it at times increases the agency's pay without additional work (1 expends over $1,000,000; 1 expends $500,000 to $1,000,000; 1 expends $100,000 to $250,000)
Two say it makes their agency a space seller (1 expends $500,000 to $1,000,000; 1 expends $250,000 to $500,000)
Two say it makes their total advertising cost higher than necessary (1 expends $500,000 to $1,000,000; 1 expends $100,000 to $250,000)
Two say it makes them pay for service to smaller accounts (1 expends $500,000 to $1,000,000; 1 expends $250,000 to $500,000)
One says it makes it difficult for him to get local newspaper rates (expends $500,000 to $1,000,000)
One says he could handle some work cheaper himself (expends $250,000 to $500,000)
One says in radio advertising his agency gets paid without rendering any service (expends $100,000 to $250,000)
One says it keeps his small account from getting the interest of a good agency (expends under $50,000)

Representative expressions of some of these points of view are:

From an advertiser (No. 7) expending in excess of $1,000,000:

In cases where individual judgment and individual relationship obtain, such as the purchase of art work and radio talent, we believe the system operates to the disadvantage of the advertiser.

From an advertiser (No. 22) expending in excess of $1,000,000:

We think it is likely that the present method of compensating agencies works to our disadvantage in some cases because there may be an unintentional bias toward media which give commission as against those which do not.

From an advertiser (No. 31) expending between $500,000 and $1,000,000:

We feel it would be much to the advantage of our relationship with our agency if the agency's compensation came direct from us rather than as a commission on the sale of advertising space in magazines and other media.

From an advertiser (No. 40) expending between $500,000 and $1,000,000:

We believe the present agency relation works to our detriment. A specific example of this is the compensation they receive in preparing and placing newspaper copy. The work of preparing advertisements for one newspaper is as great as the work of preparing a campaign to run in a hundred or a thousand newspapers, yet their compensation is increased by the number of papers in which the copy is run. This it seems to us is an unjust arrangement.

TABLE XXV

Views Expressed	Advertisers Expending					
	Over $1,000,000	$500,000 to $1,000,000	$250,000 to $500,000	$100,000 to $250,000	Under $100,000	Total
No answer	2	.....	2	4	1	9
See disadvantages:						
In general	4	2	1	2	.....	9
In own case	8	6	4	5	2	25
No disadvantage	11	8	11	14	14	58
Total	25	16	18	25	17	101

From an advertiser (No. 59) expending between $250,000 and $500,000:

We particularly object to the fact that the agency is paid by the publisher for services performed for us. The old idea that the agency is the publisher's representative in the selling of space is no longer true and should be abolished. The work is really done for the advertiser, should be paid for by him and be under his complete control. During former years when our account was large and very profitable to the agency, we found other clients with much smaller accounts getting just as much attention as we did. If the method of compensation had been under our control we could have demanded and obtained better service.

A classification of all the views of the 101 advertisers on this question, by size of account, shows the results tabulated in Table XXV.

ADDENDA

In addition to answering the specific questions above cited, concerning their own agency experience, advertisers were invited to make any general observations which they cared to make on any phase of the agency question. Forty-five advertisers availed themselves of this opportunity. In these general observations a few viewpoints stand out.

Many advertisers who are entirely satisfied with their own agency service and who think the agency compensation fair in their case are nevertheless opposed to or doubtful about the "agency system." In every size expenditure group, from the highest to the lowest, are advertisers who say that the present method of agency compensation works satisfactorily for them, but who nevertheless feel that it is "illogical" and "unsound" and works to the disadvantage of an advertiser of some other size.

Another noticeable change in views often takes place as soon as an advertiser ceases talking about his own agency operations and begins to talk about agencies in general. Sometimes he makes strong criticisms of agency practices and abuses, which, he hastens to add, are not true of his own agency.

Two unconsciously stated points of view may be noted: first, practically all advertisers appear to judge advertising-agency compensation wholly in its relation to the direct service rendered to them; second, most advertisers who consider their agency compensation excessive appear to measure agency service wholly in terms of number of pieces of advertising prepared.

In their general comments a number of advertisers discuss possible alternatives to the commission method of payment for agencies. Those suggested are:

1. A fee, to be arranged between each advertiser and agent
2. A sliding commission scale, higher than 15 per cent for small accounts, lower than 15 per cent for large accounts
3. A standardized scale of prices for different kinds of work, leaving each advertiser free to choose what service he needs

A few advertisers express in their general comments opposition to any change in the present commission method of payment. For example:

From an advertiser (No. 55) expending between $250,000 and $500,000:

The present agency commission plan has numerous advantages which make it more desirable than any plan yet suggested.

If the commission were removed and a fee basis substituted a great many manufacturers would attempt to plan their own advertising. Poor results would naturally follow because very few advertisers would be able to gather about them the talent which an agency can offer, the cost of which is spread over the commissions received from several accounts.

The foregoing would lead to less and less advertising which would result in smaller income by the publications or whatever media were used. This in turn would continue on a cycle of less editorial expenditure, less reader interest, less circulation, etc.

A change to fees would put agencies more on a price basis and less on the basis of ability.

Frequently an advertiser shows that he has given the whole subject of the advertising agency and its method of compensation the most thoughtful attention; that he is troubled by certain features of the present situation, but that he recognizes values in it which any other method of compensation must retain. One such thoughtful comment is the following:

From an advertiser (No. 21) expending in excess of $1,000,000:

In general, it is our feeling that while we are satisfied with the present method of agency compensation as it works out in our case, it is not an entirely satisfactory method of working. We have studied various other systems and suggestions for agency remuneration, but have not come across one which we believe would work as satisfactorily as the present. We believe that if our expenditures were to be materially increased we might be facing a serious problem of getting from the agency sufficient logical additional services to make up for the increase in commissions. It is our belief that the agency should not concern itself with sales or merchandising work except to the extent that is necessary to keep themselves thoroughly informed on the course of our business, and to co-ordinate their advertising effectively with our sales plans. We believe that under the present system and with our present appropriations we are receiving all the work along sales and merchandising lines which is necessary and desirable.

We should not like to see a system of compensation adopted which would necessitate constant trading in the matter of compensation between the advertiser and the agency. We feel that this would result in agency remuneration dropping to a level which would make it impossible for agencies to offer proper incentive to the creative talent which they now use. We believe that such a system would result in increasing the turnover of accounts, and it is our opinion that one of the greatest wastes of advertising is the tremendous amount of lost motion brought about by changing agencies.

If a fee basis could be developed which would include some standardization feature designed to eliminate trading, or if a scale of commissions could be adopted which would result in allowing the large account to benefit from the advantages of its volume of billing, we believe that the industry would be benefited by making a change.

We believe that careful consideration should be given to the relationship and responsibility of the agency to publisher and advertiser. At present the publisher pays the agency which in turn serves the advertiser. While we do not think that any great evil arises from this somewhat illogical arrangement, and while we recognize certain benefits derived from the "recognition" function of the publisher, we believe that the agency owes first and complete allegiance to the advertiser, and that his status as the agent of the latter should be recognized and clarified.

PART I

SECTION IV

THE AGENCY AND THE PUBLISHER

CONTENTS

How the Publisher Views the Agency
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SECTION IV

THE AGENCY AND THE PUBLISHER

HOW THE PUBLISHER VIEWS THE AGENCY

The position of publishers, particularly that of periodical publishers, in supporting the present agency structure has been the point of attack for most of the criticism of this structure.

Periodical publishers as a whole have, the record shows, given their support to this structure in the face of repeated, vigorous, and organized criticism over a long period of years, and in the face of some criticism from publishers themselves. This fact would appear to be prima facie evidence of a belief on the part of publishers that the agency mechanism is valuable to them.

The validity of this evidence has been repeatedly tested. It was tested extensively in 1925 by Mr. Ivy Lee, who reported in his findings that "the publishers almost to a man backed up the agency system."

Wherever periodical publishers' views have been officially tested, as in their trade associations, or in the Federal Trade Commission case mentioned in Section II, they have shown the same result.

One important exception to this is found among publishers of trade or business papers. The publishers of these papers as a whole appear to support the agency as a mechanism useful to advertisers, and one of the leading ones has conducted an advertising campaign urging the use of agencies by advertisers. But a majority of the papers represented in Associated Business Papers does not support the commission method of compensation for agencies.

Your examiner has currently tested these views of publishers in personal interviews with leading magazine, newspaper, agricultural, and business-paper publishers, and with publishing association officials. Statements of some of these will be found in the Appendix.

In the light of this evidence it has not seemed necessary, for the purpose of this report, to test this opinion further. It has been accepted here that while individual publishers here and there have

doubts concerning the agency structure, it remains true that the great bulk of publishing opinion, including the most influential part of it, supports this structure. Upon this assumption attention has been directed to determining why publishers support this structure, and to determining as far as possible the validity of their reasons for doing so. In doing this, attention has been confined largely to periodical publishers because it is in association with the periodical publishing business that the agency structure has developed, and therefore the longest experience with the agency is found there.

WHAT FUNCTIONS THE AGENCY PERFORMS FOR THE PUBLISHER

In its folder *Principles of Agency Recommendation*, previously quoted, the Periodical Publishers' Association expresses this general view of the advertising agency:

> The publisher looks on the agency as a combination salesman and technical service engineer, who shall create and develop advertising by enhancing its value to the advertiser. For this service the publisher pays a commission to the agent, having first determined that the agent is qualified and eligible to recognition.

The view of the agency's position and functions taken by the American Newspaper Publishers' Association was set forth in the legal brief presented by that Association in the Federal Trade Commission case mentioned in Section II. This brief said in part:

> The word "agent" as applied to the advertising agencies is a misnomer. Advertising agencies have never been agents in the true sense of that term. In the publishing field they are regarded rather as independent contractors soliciting advertising from the advertiser to be published in newspapers or other publications, procuring such advertising to be published, and receiving from the publisher a commission or discount from which, after payment of their expenses, their profits are derived.

Clegg v. *New York Newspaper Union*, 72 Hun. (N.Y.), 395 at 396:

> For some years prior to 1876 the plaintiff was engaged in the city of New York in securing from persons, firms and corporations advertisements to be published in various newspapers. He is described in the case as an "advertising agent," but he is neither an agent of the advertisers nor of the publishers. He makes agreements with those wishing to secure the publication of their advertisements to procure their publication in certain newspapers for certain sums, and contracts with the papers, or those representing them, to publish the advertisements at rates agreed on. The difference between the rate paid to the newspapers and the rate which he receives from the advertisers is his profit.

> The advertising agency is looked upon by the publisher as a salesman, selling the advertising columns of the newspapers to advertisers. Its function could not be performed by each newspaper separately, except at an expense greatly in excess of the commissions paid. Also the advertising agency places the advertising with the publisher on its own individual credit. The publisher looks for payment only to the advertising agency and not to the advertiser. For the benefits, therefore, which the publisher considers he receives through the agency's activities in inducing advertisers to engage in advertising campaigns and for the risk which the agency assumes in contracting on its own responsibility for the payment of the advertising, the publishers allow the agency a 15 per cent commission or discount.
>
> As a natural consequence of the advertising being placed upon the credit of the agency it has become necessary for the publishers to investigate and be satisfied as to the financial responsibility of the agencies and also that the agencies are in fact *bona fide* agencies soliciting advertising and not merely dummies acting in the interest of an individual advertiser under the cloak of an agency designation in an effort to obtain an agency commission which otherwise would not be allowed.
>
> One of the functions, therefore, of the American Newspaper Publishers' Association has been to investigate in the interest of its members and report to the members as to the financial responsibility, personnel, experience, integrity and *bona fides* of agencies desiring to place advertising with and obtain credit from the members of the Association. Instead of each of the five hundred members being required to investigate each agency, the Association investigates and reports the result of its investigation to all the members, and where it recommends the recognition of the agency it gives what in its judgment it believes to be a proper financial rating. This recognition and rating may be accepted or not by the individual member as he in his independent judgment may deem proper.

As gathered from such official statements, and from statements by and interviews with individual publishers, the principal reasons given as to why the publisher values the agency are these:

1. It develops new business.
2. It reduces the hazards of advertising and thereby the mortality rate in the publisher's business.
3. It advocates the idea of advertising in competition with other means of sales promotion.
4. It creates the advertising "copy" which is an essential element in the sale of advertising.
5. It develops and improves advertising techniques and thereby increases the productivity of advertising.
6. It simplifies the publisher's credit operations and reduces the costs of these operations.

7. It carries the cost of credit losses.
8. It simplifies and reduces the publisher's costs in the mechanical preparation of advertising.
9. It reduces the publisher's costs in following up advertising schedules to meet publication schedules.

In the pages immediately following, an attempt is made to discern the influence of these elements in the publisher's business and to appraise their importance to him.

RELATION OF NEW BUSINESS TO PUBLISHING VOLUME

To determine the extent to which maintenance and growth of publishers' advertising volume is dependent on the constant development of new business, an analysis was made of the record of national magazine advertising for the ten years 1921–30 inclusive.

Data for this analysis were available only for advertisers expending $10,000 or more in the thirty leading magazines, as given in Crowell's *National Markets and National Advertising*. The total of such expenditures in these magazines in 1921 was $77,360,411. This expenditure was made on 1,697 separate products (by a smaller number of advertisers).

Expenditures on these 1,697 products were traced through each of the succeeding nine years, and the amount which they contributed to the publishers' total volume in succeeding years was determined. The detailed results of this analysis of magazine advertising are shown in Table XXVI.

This table shows that mortalities among the 1,697 products advertised in 1921 steadily reduced the number of these products, and the total volume from the remaining products, in each succeeding year. By 1930 only 526 of the original 1,697 products were being advertised (in these publications and with expenditures of $10,000 or more) and the volume from these remaining products was $57,604,753 as against the original $77,360,411.

There is also shown in this exhibit the number of new products, from both old and new advertisers, which contributed to the total volume in each year after 1921. It will be noted that the number of new products of both kinds appearing in the record from year to year does not vary greatly, nor does the volume of new advertising from

TABLE XXVI*

Ten-Year Record of National Advertisers' Expenditures in Thirty National Non-farm Magazines

	1921		1922		1923		1924		1925		1926		1927		1928		1929		1930	
	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products	Volume	No. of Products
1921 volume and carry-over from this in succeeding years	$77,360,411	1,697	$65,934,079	1,237	$70,494,291	1,092	$ 71,120,881	920	$ 72,541,725	849	$ 74,093,521	787	$ 72,946,164	758	$ 70,067,129	608	$ 62,935,224	559	$ 57,604,753	526
Cumulative volume carried over from all products started after 1921	.....	.....	.....	.....	14,337,970	.....	24,689,824	.....	37,601,260	.....	51,491,415	.....	58,932,737	.....	61,916,082	.....	73,814,342	.....	82,110,167	.....
Volume from new products of old advertisers	.....	.....	6,025,642	204	6,026,185	194	5,002,634	192	5,331,404	176	5,981,835	189	7,898,305	165	5,820,070	133	9,281,827	161	8,887,273	192
Volume from new products of new advertisers	.....	.....	7,802,952	247	7,838,566	309	9,282,512	299	8,306,812	246	7,882,417	249	8,225,797	264	7,561,379	240	9,090,209	240	9,274,437	248
Total	$77,360,411	.....	$79,762,673	.....	$98,697,012	.....	$110,095,851	.....	$123,781,201	.....	$139,449,188	.....	$148,003,003	.....	$145,364,660	.....	$155,121,602	.....	$157,876,630	.....

* Crowell (*National Markets and National Advertising*) includes only those advertisers who spent $10,000 or more in any of the preceding five years.

these products. A third figure in each year after 1922 shows the cumulative volume retained from this new business.

These figures appear to indicate: (1) that the publisher cannot maintain his volume without a constant flow of new business; (2) that more of this new business comes from new advertisers than from old; (3) that the chief factor in expanding the publisher's volume is the cumulative retention of part of each year's new business.

EFFECT OF ADVERTISER MORTALITY ON PUBLISHER'S VOLUME

This is also indicated by the figures in the preceding analysis. Over 27 per cent of the products advertised in 1921 failed to reappear in the 1922 volume. By 1923 over 35 per cent of the original group of 1921 products had disappeared from the record. The general rate of decline is much lower after the first two years, but by the tenth year only 31 per cent of the original group of products remains.

It will be recognized that many factors besides advertising effectiveness enter into this mortality rate; also that these figures are for but one type of advertising which competes among many for the advertiser's expenditures. Nevertheless, the importance to the publisher of doing all in his power to reduce this mortality rate is clearly indicated, and the high percentage of mortality in the first two years is suggestive. Attention is called to the thought that there may be some connection between this rate and the relative lack of competency standards for advertising agencies described in Section I.

NECESSITY FOR SELLING THE IDEA OF ADVERTISING

No way has been found to appraise this statistically, although the dependence of the publisher's growth in volume on new business from new advertisers, as shown in Table XXVI, is suggestive of the importance of this factor.

It seems obvious, however, that the only continuous vital interest of the individual advertiser is in the promotion of his own business. Advertising is but one means offered him for this promotion. In some cases it is a major means, in some a minor one. Advertising must constantly compete for the advertiser's choice of means.

The record also seems to indicate that, even in business with a

long advertising experience, the appearance of new men without that experience, in places of power, often affects the use of advertising.

It seems reasonable to accept advocacy of advertising, through some means, as a necessity of the publisher's business.

CREATION OF ADVERTISING COPY NECESSARY TO THE SALE OF ADVERTISING

When we examine the record of experience in the sale of advertising for all media, we find that advertising appears to be most easily sold in association with the creation of advertising copy.

In making his choice of promotion means the advertiser is interested only in results. Advertising offers to secure these results by a process of disseminating certain ideas—a means which is highly intangible at its best, and subject to no prejudgment until visualized and expressed. Hence the buyer of advertising displays a strong predilection for concrete proposals.

Presumably for this reason we find an association of advertising selling with the creation of advertising copy throughout its whole history. Publishers themselves discovered the effectiveness of this association. "Service bureaus" for the creation of advertising have been a regular adjunct of publishers' promotion in media outside the agency structure. Thus 118 member papers of the Associated Business Papers reported in 1930 that they wrote copy for advertisers, and, of these 83 made no charge for such service. Street-car advertising, direct-mail advertising, store display, novelties, and outdoor advertising before it came within the agency structure—all exhibit the same association of advertising creation with advertising selling.

The continuing force of this fact appears in the constant temptation for agency selling to take the form of speculative submission of advertising plans and material. Even publishers themselves, when they become advertisers, often yield to the temptation to buy advertising in this way. The effectiveness of this method of selling appears so strongly throughout the whole field of advertising that, under competitive conditions, it may be accepted as almost a selling necessity for the publisher to provide some means of visualizing and expressing advertising proposals.

DEVELOPMENT OF THE TECHNIQUES OF ADVERTISING

That a great development in the techniques of advertising has taken place over the last quarter of a century can be clearly seen when publications of twenty-five years ago are compared with those of today, but evidence of this is difficult to exhibit here. How much this may have contributed to increased advertising effectiveness cannot be determined. The importance of this element in the publisher's business therefore cannot be determined.

SIMPLIFICATION OF PUBLISHERS' CREDIT OPERATIONS

This would appear to follow naturally from the set-up of the national advertising structure and the quantities involved in it, as exhibited in Section I. Thus:

16,573 advertisers secure credit with 810 agencies
810 agencies are given credit ratings by 5 publishers' recognizing bodies
These 5 publishers' bodies supply credit information directly and indirectly, to *17,639* publishers

The operation of this credit system under abnormal conditions may be seen in the figures of payments to three magazines, following the recent bank holiday (Table XXVII).

TABLE XXVII

Payments by Agencies	Magazine 1 Due Date, March 20, 1933 (Per Cent)	Magazine 2 Due Date, March 20, 1933 (Per Cent)	Magazine 3 Due Date, March 21, 1933 (Per Cent)
In advance of due date	4.7	5.5	6.3
On due date	40.7	26.3	28.2
One day after due date	35.3	41.6	35.9
Two days after due date	9.4	15.7	15.9
Three days after due date	4.4	3.7	3.3
Four days after due date	4.9	6.9	.....
Five days after due date	.1	.....	.....
Still unpaid, April 5, 1933	.5	.3	10.4
Total	100.0	100.0	100.0

CARRYING THE COST OF CREDIT LOSSES

Leading magazine publishers state that their credit losses are so infinitesimal in comparison with their volume that they include no cost figure for such losses in their operating budgets. In contrast, the

guide for budgeting issued to its members by the American Association of Advertising Agencies in 1931 recommended an item for doubtful account expense of .14 per cent of agency-commission income, this being the median figure for the actual credit losses of fifty-seven agencies in 1930.

It appears, therefore, that what credit losses there are in national advertising are largely carried in the agency part of the price structure.

SIMPLIFICATION OF PUBLISHERS' MECHANICAL PREPARATION

The Curtis Publishing Company states:

> Our mechanical department is conscious of a great improvement on the part of agency service in the preparation of plates. Up to ten years ago we employed a number of trained engravers solely to improve imperfect original plates and electrotypes furnished by agencies for our advertising pages. Year by year the volume of such plate work has been diminished until today plates from advertising agencies require few alterations.

REDUCTION OF FOLLOW-UP COSTS

An examination of publishers' manufacturing schedules indicates a highly complex operation geared to a final fixed mailing, shipping, and delivery date or hour. In the case of a weekly magazine the schedule for the completion of different parts of the manufacturing process is set, not by days, but by given hours on certain days.

Against this schedule the publisher's advertising department works to get scheduled advertising in. Publishing experience indicates that the value of advertising space involves a large time element and that space unused in one issue is, in the long run, that much less business done. Publishers therefore have a strong incentive for a follow-up against closing dates. It is their belief that the necessity for this and the cost thereof would increase if they dealt direct with advertisers, or if the agency did not also have an incentive to meet closing dates. There is very little experience by which to measure the effect of this, but such as there is indicates that advertisers placing business directly miss more scheduled insertions than do agencies.

EFFECT OF VOLUME ON PUBLISHERS' PROFITS

The statistical analysis previously shown in this section indicates the sources of the publishers' volume. The effect of advertising volume on the publishers' profit margins is shown in Tables XXVIII, XXIX, and XXX. These tables are based on the actual costs of a large publisher. They show how publishing profits would vary between two issues of the same magazine under certain hypothetical conditions.

Table XXVIII shows what happens when circulation remains constant and advertising lineage increases sharply.

Table XXIX shows what happens when volume of advertising lineage remains constant and circulation increases sharply.

Table XXX shows what happens when both volume of circulation and advertising lineage increase sharply.

TABLE XXVIII

SAMPLER MAGAZINE: COMPARISON OF REVENUES, EXPENSES, AND PROFITS ON TWO ISSUES WHEN CIRCULATION REMAINS CONSTANT AND VOLUME OF ADVERTISING LINEAGE INCREASES

Essential Data

	Issue A			Issue B		
Circulation		1,000,000			1,000,000	
Number of pages:						
Advertising	25			55		
Editorial	35	60		45	100	
Net advertising revenue:						
At $2,520 per page		$63,000			$130,000	
Net circulation revenue		12,000			12,000	
			$75,000			$142,000
Manufacturing and distribution costs		$55,000			$87,000	
All other expenses less miscellaneous revenues		16,000			19,000	
			71,000			106,000
Net profit			$ 4,000			$ 36,000

TABLE XXIX*

SAMPLER MAGAZINE: COMPARISON OF REVENUES, EXPENSES, AND PROFITS ON TWO ISSUES WHEN ADVERTISING LINEAGE REMAINS CONSTANT AND CIRCULATION INCREASES

Essential Data

	Issue A		Issue B	
Circulation	1,000,000		1,500,000	
Number of pages:				
Advertising 25		25		
Editorial 35	60	35	60	
Net advertising revenue	$63,000		$88,250	
Net circulation revenue	12,000		16,750	
		$75,000		$105,000
Manufacturing and distribution costs	$55,000		$85,000	
All other expenses less miscellaneous revenue	16,000		16,000	
		71,000		101,000
Net profit		$ 4,000		$ 4,000

* Issue A has a circulation of 1,000,000 and a net page rate of $2,520; Issue B has a circulation of 1,5000,000 and a net page rate of $3,530. Circulation has been increased 50 per cent; the advertising rate has been raised 40 per cent.

TABLE XXX*

SAMPLER MAGAZINE: COMPARISON OF REVENUES, EXPENSES, AND PROFITS ON TWO ISSUES WHEN BOTH CIRCULATION AND ADVERTISING LINEAGE INCREASE

Essential Data

	Issue A		Issue B	
Circulation	1,000,000		1,500,000	
Number of pages:				
Advertising 25		55		
Editorial 35	60	45	100	
Net advertising revenue	$63,000		$194,150	
Net circulation revenue	12,000		16,750	
		$75,000		$210,900
Manufacturing and distribution costs	$55,000		$115,000	
All other expenses less miscellaneous revenues	16,000		16,000	
		71,000		131,000
Net profit		$ 4,000		$ 79,900

* Issue A has a circulation of 1,000,000 and a net page rate of $2,520; Issue B has a circulation of 1,500,000 and a net page rate of $3,530. Circulation has been increased 50 per cent; the advertising rate has been raised 40 per cent.

These tables represent hypothetical conditions, much simplified as compared to the actual complex operations of a publishing property. They merely indicate the direction in which certain basic elements in the publishing business tend to influence its operation. They indicate: (1) that there is no profit incentive for the publisher to increase circulation alone; (2) that there is a substantial profit incentive to increase advertising lineage alone, without any increase in circulation and rate; (3) that the greatest profit incentive is to increase both circulation and volume of advertising lineage; (4) that the advertiser tends to secure a lower rate when both circulation and volume of advertising increase.

EFFECT OF ADVERTISING VOLUME ON PUBLISHERS' RATES

The relation between volume of advertising lineage, volume of circulation, publishers' costs, and advertising rate as illustrated by the actual figures for one large magazine over the ten years 1922–32 are shown in Table XXXI.

TABLE XXXI

INDICES OF ADVERTISING LINEAGE, VOLUME OF CIRCULATION, PUBLISHER'S COSTS, AND ADVERTISING RATE FOR ONE LARGE MAGAZINE OF GENERAL CIRCULATION, 1922–32

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Circulation	100	105	114	133	133	138	146	152	159	160	152
Manufacturing, editorial, and distribution costs per thousand pages	100	106	99	90	86	89	84	78	78	78	76
Above costs after deducting net circulation revenue	100	100	100	83	90	95	89	87	91	86	86
Advertising volume in number of pages	100	145	153	132	163	188	212	214	231	204	181
Advertising rate black and white page per thousand circulation	100	102	108	95	95	91	88	89	88	92	89

The figures for this one magazine start with 1922 as a base. In the preceding year, 1921 (a year of reduced advertising volume), magazine advertising rates in general appear to have been at about their peak. A larger percentage of decrease in these rates therefore appears when 1921 is taken as the base. Thus for the six leading women's magazines as a whole, the ten years 1921–30 show the results in Table XXXII.

TABLE XXXII

	1921	1930
Circulation	100	175
Advertising lineage	100	124
Advertising rates per page per thousand	100	72

In this group of magazines we see a large increase in circulation and a substantial increase in advertising lineage accompanied by a substantial decrease in advertising rates per thousand circulation. This may be contrasted with the figures for a group of six class magazines for the same period (see Table XXXIII).

TABLE XXXIII

	1921	1930
Circulation	100	120
Advertising lineage	100	179
Advertising rates per page per thousand	100	125

In this group a sharp increase in advertising volume, without a large increase in circulation, was accompanied by an increase in advertising rates per thousand.

From a study of all these data it would appear that the publisher's rate to advertisers is the result of a complex set of factors and influences. Manufacturing costs, editorial costs, volume of circulation, and volume of advertising are interrelated factors operating on one another, and influencing them all are the current competitive conditions of the advertising market. Speaking broadly, it appears that these interrelated factors tend to operate in the following manner:

First, that below a certain advertising volume the publisher will operate at a loss, and if competitive conditions permit, this will lead to a rise in advertising rates.

Second, that beyond a certain point an increase in volume of advertising lineage will tend to increase sharply the publisher's net profits.

Third, this increase in advertising volume will automatically bring some increase in editorial content up to a certain point. This will tend to increase reader value and circulation.

Fourth, at this point, with an increased profit margin, the publisher is faced with several choices. Which one he makes will be determined largely by the particular field he operates in and by the immediate competitive conditions within that field.

Among these choices will be (*a*) to attract more advertising lineage by reducing his rates; (*b*) to attract more advertising lineage and dollar volume by increasing both his circulation and his rates.

Fifth, if competitive conditions and the attitude of buyers suggests the latter as the more desirable course, he will use part of his increased profits as an investment in expanding circulation. This will tend to increase editorial costs in dollars but to reduce both editorial and manufacturing costs in units per thousand copies; it will tend to increase circulation costs faster than manufacturing and editorial costs are reduced, and net profits will tend to decline.

Sixth, if the increased circulation secures an increase in both advertising lineage and dollar volume net profits will again rise, and competitive conditions will tend to reduce the rate per thousand to the advertiser.

It would appear, therefore, that the key factor in publishers' profits, either through increased circulation or otherwise, is the actual

amount of advertising lineage available. The amount of reduction in the advertiser's rate which increase in advertising lineage will bring will depend upon the working of this volume factor through a complex of publishers' costs and competitive conditions. But a tendency will appear for the rate to be reduced as lineage increases, and for the rate to be increased as linage is reduced.

PART I

SECTION V

THE INTERNAL OPERATIONS OF THE ADVERTISING AGENCY

CONTENTS

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Effect of Business Recession on Agency Volume and Salaries

Note.—In this section will be found various statements which are unsupported by factual evidence. They relate to factors in agency operations for which the only evidence is the generalized experience of practitioners. Principals in some 25 agencies of all sizes, from the largest to the smallest, have been consulted in connection with these points, and the examiner's personal experience checked against theirs. The statements made, however, are necessarily a personal judgment.

SECTION V

THE INTERNAL OPERATIONS OF THE ADVERTISING AGENCY

As shown in Section I, recognized advertising agencies vary greatly in volume of business done. This variation is shown in even greater range for a more selective group of agencies among the members of the American Association of Advertising Agencies. For the year ending March 31, 1932, the members of this association were classified by volume of business done as shown in Table XXXIV.

TABLE XXXIV

Volume of Business	Number of Members in Each Group Based on Volume for 12 Months Ended March 31, 1932
Under $150,000	11
$ 150,000 to $ 200,000	8
200,000 to 250,000	11
250,000 to 500,000	19
500,000 to 750,000	14
750,000 to 1,000,000	8
1,000,000 to 1,500,000	12
1,500,000 to 2,000,000	7
2,000,000 to 2,500,000	1
2,500,000 to 3,000,000	..
3,000,000 to 4,000,000	4
4,000,000 to 5,000,000	1
5,000,000 to 6,000,000	1
6,000,000 to 9,000,000	1
9,000,000 to 12,000,000	1
12,000,000 to 15,000,000	1
15,000,000 to 20,000,000	1
Over $20,000,000	5
Total number of members	106

In terms of operating revenue for the agency these variations are seen to be striking when the lowest and highest classifications are compared. An agency with a volume of business under $150,000

annually has an operating revenue from commissions of less than $22,500; while an agency with a volume in excess of $20,000,000 has an operating revenue from commissions exceeding $3,000,000.

In keeping with this variation in volume of business and operating revenue, agencies vary greatly in size of organization. This variation ranges from agencies composed of one man with a few clerical assistants to agencies with hundreds of employees, operating through numerous branch offices in this country and abroad.

Agencies vary again in type of organization. Some operate as individuals, some as partnerships, some as corporations. Some agencies are primarily a collection of individuals, each "controlling" his own clients and merely cooperating under one roof in the joint use of a clerical and mechanical staff. Others are built around one strong individual who finances the enterprise and has his own clients, but allows other semi-independent individuals to use his facilities on a shared commission basis of compensation. Still others are highly departmentalized organizations, under strong central management and control, with all members of the staff on a salary basis of compensation, though usually with some form of profit participation for major members of the organization.

Within the departmentalized and therefore larger agency organizations may be seen marked variations in the kinds of departments and in the allocation of functions between departments.

Agencies further vary in the type of business which they serve. Some agencies deliberately specialize on certain types of advertising, as financial, technical, or agricultural advertising. Some specialize on work in certain territories. All agencies tend to become partly specialized in certain classifications of industries, as automobile, food, or mail order.

These variations in the size and nature of agency organizations and business create certain variations in their internal operating problems and policies. In spite of these, however, all agencies are essentially alike in certain respects.

AGENCY EQUIPMENT

Agencies of all sizes are much alike in their essential equipment. This consists of liquid capital, personnel, and office operating space,

furniture, and fixtures. A few agencies own real estate, a few have typesetting and printing equipment, but essentially the advertising agency in all its forms is a personal service organization. Its essential processes are brain work.

CAPITAL IN THE AGENCY

Agencies are much alike in that, typically, the agency operator enters business with his own capital, and in that the nature of the risks taken with this capital are much alike at all levels.

In sound agency operating practice, capital is not looked upon as a direct income-producing factor. The discount for cash which the publisher allows the agency is intended for the use of the agency in securing payment from the advertiser in advance of or on the date when the agency must pay the publisher; and it is on such terms that the best-managed agencies conduct their business. The practices of an earlier day, when agencies often operated as bankers and secured accounts by financing the advertising, have disappeared from all first-rate agencies and are frowned upon by publishers' credit organizations. A study made of a group of agency financial statements a few years ago disclosed that only 7 per cent of outstanding receivables were overdue at the end of one year, and that thus on only $\frac{7}{100}$ of the billing volume did the agency itself earn and keep the cash discount. Under current conditions probably a higher percentage of overdue receivables would be found.

The minimum capital requirements, in the form of net current assets, looked upon as necessary to sound agency operations by the American Association of Advertising Agencies is given in Table XXXV.

TABLE XXXV

Monthly Billing	Net Current Assets Should Be
$ 20,000	100 per cent of billing
30,000	90 per cent of billing
40,000	80 per cent of billing
80,000	60 per cent of billing
160,000	50 per cent of billing
Over 250,000	40 per cent of billing

Thus at the higher levels an agency doing a business of $6,000,000 a year, or an average of $500,000 a month, would require net current assets of $200,000.

An agency with an annual business of $12,000,000, or $1,000,000 a month would require minimum net current assets of $400,000. And an agency with a volume of $24,000,000 annually would require minimum net current assets of $800,000.

The chief uses and risks of capital in the advertising agency business are: (1) to establish and maintain credit with the publisher; (2) to finance the operations of, and physical facilities for, personnel; (3) to finance the purchase of advertising production materials, such as art, typesetting, engravings, etc.

On a given typical order for advertising space from an advertiser the agency risks 85 per cent of the order when it assumes the liability to pay the publisher; and it risks another 12 per cent (more or less) in financing personnel operations. The median figure for the actual losses of 57 agencies in 1930 has been shown to be 0.14 per cent of agency (commission) income. The highest figure among these 57 agencies was 27.63 per cent.

The risk of the agency's capital in the purchase of space is definite and specific. While the actual average losses from this risk throughout the agency business are low, mortalities among agencies do occur from this risk.

It would appear, however, that the greatest hazards in the agency business arise from the financing of personnel and their equipment. Among the 57 agencies reporting their costs to the American Association of Advertising Agencies for 1930 (a year of high agency volume), 16 agencies showed an operating loss. Fourteen of these 16 agencies had a ratio of personnel costs to total costs considerably higher than the average or mean figures for personnel costs. Such high personnel ratios are sometimes due to poor management, but sometimes due to the lag between investment in personnel and agency income. This lag is seen most clearly in the case of a new agency in its first year of operation. The records of one such agency, which started with the promise of a substantial volume of business, are shown in Table XXXVI.

The hazard in this lag is due to the violent and unforeseen fluctuations which take place in advertising expenditures. The advertiser's freedom to contract his expenditures overnight, or delay them, or change to another agency, often leaves the agency with a personnel and lease investment which cannot be contracted as rapidly as volume contracts. A loss and even serious impairment of capital may result for the agency operator. Further losses will be sustained by individual members of the agency staff through unemployment or contraction in income. This hazard is greater with large accounts than with small, and is serious when one large account represents a substantial part of the agency's total volume.

TABLE XXXVI

	Expense	Income	Loss
First six months	$ 49,341.68	$12,058.54	*$37,283.14*
First year	111,995.46	84,893.75	*27,101.71*

In general, it appears that the cost of the advertiser's freedom to change his plans is borne largely in the agency structure.

THE AGENCY'S PROFIT INCENTIVES

Advertising agencies with some exceptions are alike in that their chief profit opportunity comes through increasing the use of the publisher's space. The publisher's protection of this opportunity furnishes the ultimate incentive for assuming the risks of the agency business.

This incentive is the basis for many of the criticisms of the agency structure. The nature of these criticisms and the extent of them is shown in Section III. What we wish to examine here is whether there are any other incentives in agency operations which modify the workings of this underlying one.

One such modifying influence is the strong incentive to retain a client. As shown in Section I, 810 agencies have 16,573 clients, an average of a little over 20 per agency. The number of opportunities for any individual agency to secure new business quickly is basically limited, and this opportunity is still further reduced by the agency practice of serving only one client in a given kind of business. In

the agency each advertiser is relatively a much more important factor than is any one customer in most lines of business. In numerous cases the loss of one client will turn agency operations from profit to loss.

If the agency is doing business on "card rates," its only basis for holding its clients against competition is its service, and the constant pressure of competition will tend to place this service incentive ahead of any immediate profit incentive. An illustration of this is given in the case of one agency with a separate business paper department, whose cost accounting for the year 1931 is shown in Table XXXVII.

TABLE XXXVII

	Trade and Business Paper Department Only
Net billing	
Media, preparation and miscellaneous	$820,470
Service billing	10,000
Total	$830,470
Cost	710,105
Gross Profit	$120,365
Expense	174,958
Net loss before taxes	*$ 54,593*
Federal taxes	*6,551*
Net Loss	*$ 48,042*

A second modifying factor is the agency's incentive to make its services produce the greatest possible results for its clients. This incentive grows out of several facts. The first is that the agency's own reputation and opportunity to increase its clients rests primarily on its record of achievement. Such a record produces new business at a lower cost than by any other method.

The second fact is that, under the highly developed agency service of today, the agency often fails to make a profit on new business during the first year. The lag previously spoken of between investment in service and actual billing, especially in the initial organization of work for a new advertiser, often produces a loss in the first year's operations on a new account. Thus in one agency's records of costs by accounts for 1931 appear three new accounts with billings

between $400,000 and $1,000,000 on which the figures show net losses as follows: *1.83, 6.27, 1.50 per cent.* In general, the agency's only chance for a profit is over the long haul.

The third fact is that the agency's highest rate of net profit comes from the successful, growing account. On such an account all service costs tend to go down and profits to go up as the success of the advertising produces automatic increases in volume. On the other hand, a dissatisfied advertiser, or one for whom the agency is unable to show advertising results, furnishes the most costly account for the agency to handle. Whatever its size, agency operations in connection with it are likely to show a loss. The strongest and most direct financial incentive the agency has is to make advertising pay the advertiser.

THE NEW BUSINESS PROBLEM OF THE AGENCY

All agencies are again alike in that they cannot devote themselves wholly to serving their existing clients, but must constantly seek new business.

This is suggested by the ten-year record of magazine advertising shown in the preceding section. If the maintenance of the publisher's volume as a whole requires a constant influx of new business, as indicated in Section IV, the agency business as a whole is obviously subject to the same requirement. An examination of the volume records of individual agencies confirms this. Here and there an agency, for special reasons or temporarily, escapes the requirement of new business to maintain volume. But the normal long-run experience, even of agencies with a better-than-average record for holding clients, is that growth from old business does not offset losses in old business.

The individual agency is subject to the same mortality influences which affect all business relationships and activities. Products become obsolescent, new products fail to "go," sales promotion ideas, methods, and channels change, and advertisers' policies change.

The individual agency is not only subject to these general mortality influences but to the specific mortalities of a competitive business. It has its own percentage of advertising failures, its own average of human frictions, its losses through mergers of competing companies,

and its experience of the "new king who arose in the land who knew not Joseph."

Thus it appears that new business activity in the form either of developing advertising for new products of old clients or of developing new advertisers and clients is a necessity of agency operations, and represents an inescapable cost element in these operations.

NATURE OF THE AGENCY SERVICE PROBLEM

A realistic view of agency service in any given case will show that it is the resultant of two forces which do not always move in the same direction.

These two forces are: (1) what the advertiser wants; (2) what the agency thinks he needs. Their strength in effecting agency service rises from the two agency incentives previously described: (1) the incentive to retain every client; (2) the incentive to make advertising as productive to him as possible.

These incentives sometimes conflict because the essential values in advertising are intangibles, about which there is room for wide differences of opinion; hence, what the advertiser wants does not always coincide with what the agency thinks he needs. Also they sometimes conflict because there is such a large ingredient of human nature in advertiser-agency relationships.

Advertisers' wants vary as between advertisers, and vary as between times for the same advertiser. They vary by the actual variations in advertisers' needs, but they also vary by the personal tastes, beliefs, prejudices, whims, and experience of advertisers. Thus one advertiser believes only in long copy, another only in short. One believes in radio and another does not. One likes comic strips and another abhors them. There are fashions in advertising, and violent winds of doctrine. These constantly sway the inexperienced, and sometimes change the demands of advertisers overnight. The agency cannot ignore these varying and shifting requirements on its service.

But along with these outside influences on its service the agency has its own view of the advertiser's needs and its own body of doctrine. Its incentive to make the advertising succeed and its craft pride urge the advocacy of its views. They urge discovery of the advertiser's needs before he is conscious of them; the pointing out of opportunities which he may have overlooked; and sometimes the opposing of his current demands as contrary to his real interests as the agency sees them.

This agency view of the advertisers' needs also varies between advertisers and as between times for the same advertiser. Thus for one the agency may see a need for a new kind of copy, for another a new medium. For others it may see a need outside the advertising itself to accelerate the advertising results: a new product, new package, or new sales outlet. Changing conditions may suggest for any given advertiser a rapid mobilization of effort in a new direction.

Thus agency service is, as one agency says, a product which "cannot be standardized." It is as infinitely varied as the needs, demands, beliefs, ideas, and abilities of the human beings engaged in buying and selling it. It must be highly flexible and adaptable, forming and reforming to a constantly shifting service load. Above all, it must give freedom of choice to the advertiser and the agency—to select the needed tools of the moment, to experiment, to invest in a development program. And it must have reserve power to throw into a commercial contest at any given moment any kind or type of service which will aid in reaching an advertising objective.

This infinitely varied and complex nature of agency service operations is made more difficult by the fact that all the essential processes are creative; and by the fact that these creative processes must work against a deadline. Thus much agency work must be done in too few hours and at white heat.

In recent years the creative load has been increased by the shift, in many fields of merchandise, from objective to subjective competition. No longer does advertising consist merely of "keeping the name before the public" or of disseminating news about improvements in manufacturing. Often the competition is not between products but between ideas, and on the agency rests the burden of manufacturing the subjective value which the advertiser really sells.

These characteristics of agency service determine the nature of the personnel involved in it and the costs of conducting it. There appear to be great extravagances and wastes in the operations when viewed after the event. How far these wastes are inevitable and in-

herent to the nature of the operation is difficult to determine. It does not appear possible to generalize about them; they are specific and individual between a given advertiser and agent.

Table XXXVIII gives an example of how service requirements vary as between clients, as shown by the total hours employed by all service departments in one agency in 1932.

TABLE XXXVIII

VARIATION IN HOURS OF SERVICE REQUIRED BY CLIENTS OF ONE AGENCY IN 1932

Client	Total Billing in Round Figures	Total Service Hours All Departments	Total Hours per $1,000 of Billing
A	$ 185,000	1,680	9
B	16,000	992	62
C	92,000	1,589	17
D	660,000	5,206	8
E	102,000	509	5
F	36,000	651	18
G	719,000	8,619	12
H	492,000	6,118	12
I	13,000	139	11
J	117,000	3,193	27
K	43,000	752	17
L	95,000	3,933	41
M	7,000	1,396	199
N	1,774,000	29,275	16
O	9,000	82	9
P	16,000	806	50
Q	143,000	5,836	41
R	49,000	769	16
S	183,000	4,555	25
T	218,000	2,831	13
U	164,000	5,027	31
Total	$5,133,000	83,958	16*

* Average for total billing.

ADVERTISING AGENCY COSTS

Table XXXIX shows the items which enter into total agency operating costs. The figures given are the median ones for each item as represented in the reports of 57 member agencies to the American Association of Advertising Agencies for the year 1930. Figures for later years were available, but 1930 was selected because in this year

total agency volume remained high and the most favorable view of agency cost experience would therefore presumably be represented.

The percentages given in this table are for agency gross income, not billing. They show how agency commission and service fee income was expended.

TABLE XXXIX

MEDIAN COSTS OF 57 AGENCIES FOR 1930

Costs by Classifications	Median* of All 57 Agencies	Under $500,000	$500,000 to $1,000,000	$1,000,000 to $2,000,000	$2,000,000 to $5,000,000	$5,000,000 to $10,000,000	Over $10,000,000
Agency's own advertising	0.53	0.63	0.35	0.35	0.53	0.56	0.65
Depreciation	.80	.69	.82	.81	.80	.80	.84
Donations	.10	.08	.01	.12	.10	.10	0.07
Doubtful account expense	.14	.13	.00	.91	.54	.00	1.47
Errors resulting in loss	.01	.00	.01	.14	.11	.01	0.75
Insurance	.50	.65	.44	.08	.34	.24	.99
Interest, discount, and exchange paid	.03	.83	.00	.10	.00	.39	.01
Legal fees, C.P.A. audit	.31	.15	.34	.42	.37	.23	.55
Light	.23	0.26	.30	0.15	.23	.14	.23
Membership dues	0.88	1.08	0.99	1.12	0.90	0.44	0.41
Pay-roll—other than principal owners	47.81	41.89	45.21	50.50	46.08	44.08	51.30
Pay-roll—principal owners	22.09	33.00	23.00	17.84	15.83	9.83	7.00
Total pay-roll	69.91	70.80	69.98	75.08	64.82	56.69	54.72
Postage and express	0.50	0.66	0.49	0.55	0.59	0.25	0.37
Rent, maintenance, and repairs	6.38	7.52	6.97	5.49	4.39	7.36	5.00
Supplies, stationery, and petty equipment	1.28	1.15	1.50	1.12	1.08	0.94	1.28
Taxes	0.50	0.35	0.33	0.15	1.75	.57	2.82
Telegraph and telephone	1.31	1.80	1.27	1.33	1.08	0.72	1.01
Travel expense and entertainment	2.87	2.97	2.80	5.24	3.06	2.70	2.73
All other expense	2.08	2.55	1.69	1.38	2.38	3.37	3.63
Total expense	96.08	97.91	98.30	99.76	82.97	73.23	77.37
Profit	3.92	2.09	1.70	0.24	17.03	26.77	22.63

* The median is the middle figure, which when all are arranged in order of magnitude, has as many figures above it as below.

In these figures a final profit or loss percentage is shown. An additional exhibit of agency profits arrived at by another method of computation is shown later.

For comparison with these median percentages of 57 agencies there is shown in Table XL the actual dollar cost statement of one successful agency of substantial size, for 1930.

AGENCY COSTS BY DEPARTMENTS

An effort has been made by the American Association of Advertising agencies to determine agency costs by departments or functions. For the year 1930 data of this kind was furnished by 40 agencies.

Many agencies, however, are not highly departmentalized, and, even where they are, their functions cross over between various departments and individuals. Some agency executives write copy; some do not. Some agencies combine contact and copy functions in the same individual, and some do not. Some agencies combine media and research in one department; some separate them. Accurate allocations of costs by functions are therefore difficult and to some degree arbitrary.

TABLE XL

COSTS BY CLASSIFICATIONS IN ONE AGENCY FOR YEAR 1930

	Amount	Per Cent of Gross Income
Agency's own advertising	$ 5,635.41	1.21
Depreciation	2,514.40	0.54
Donations	.....	.....
Reserve for doubtful account expense and errors resulting in loss	8,287.20	1.77
Insurance	218.43	0.05
Interest, discount, and exchange paid	.....	.....
Legal fees, C.P.A. audit	300.50	0.06
Light	.....	.....
Membership dues	1,879.76	0.40
Pay-roll—other than principal owners	204,390.32	43.85
Pay-roll—principal owners	56,500.00	12.11*
Postage and express	610.71	0.13
Rent, maintenance, and repairs	26,535.00	5.68
Stationery and forms	3,167.42	0.68
Supplies and petty equipment	.....	.....
Taxes	23,813.42	5.10
Telegraph	192.29	0.04
Telephone	3,722.23	0.80
Travel expense and entertainment	5,404.40	1.16
All other expense	6,421.33	1.38
Total expenses	$349,592.82	74.96
Profit	$116,766.58	25.04*
Gross income	$466,359.40	100.00

	Per Cent
* Salaries of principal owners and profit combined	37.15
Median salary and profit figures of same size group combined	32.86

Table XLI exhibits the average figure in each classification for all 40 agencies. Each figure being an individual average of all the figures in that classification, it will be noted that the totals do not quite "add up." All the figures must be taken merely as a general indication of the way costs are allocated by the divisions of agency operations.

TABLE XLI

AGENCY COSTS BY DEPARTMENTS

Averages of the figures reported by 40 agencies of all sizes for the year 1930, in percentages of agency gross operating revenue.

Agency promotion		7.48
Creative service:		
Contact	20.71	
Copy	13.79	
Visualization	5.33	
Research	2.36	
Total creative	42.30	
Routine service:		
Rates and media	3.83	
Mechanical production	4.87	
Total routine	8.33	
Total direct service—routine and creative		50.35
General operating costs:		
Executive overhead	10.38	
General office	5.41	
Accounting	4.37	
Total "inside" personnel	19.73	
General overhead	16.47	
Total internal operation		36.00
Total expense		94.62
Profit		5.38
Gross income		100.00

For comparison with these average percentages there are given the actual figures for one successful agency of substantial size for 1930 (Table XLII).

COSTS OF AGENCY PERSONNEL

All agency personnel represents an expansion, through specialization, of the functions performed by the one-man agency, in the getting of business, servicing of it, and making a profit from it.

TABLE XLII

ALLOCATION OF EXPENSE BY DEPARTMENTS IN ONE AGENCY FOR YEAR 1930

		Per Cent
Agency promotion	$ 45,062.39	6.50
Creative service:		
Contact and research	158,136.70	22.83
Copy	94,762.32	13.68
Visualization	27,989.13	4.04
Total creative	$280,888.15	40.56
Routine service:		
Rates and media	23,699.02	3.42
Mechanical production	37,363.94	5.39
Total routine	$ 61,062.96	8.81
Total direct service to clients	$341,951.11	49.38
General operating costs:		
Executive overhead	83,479.05	12.05
General office	23,852.07	3.44
Accounting	17,451.91	2.52
Total "inside" personnel	$124,783.03	18.02
General overhead:		
Depreciation	3,311.81	
Donations	650.00	
Doubtful account expense	11,811.21	
Insurance	6,178.47	
Interest and exchange paid	14.24	
Legal fees	2,266.95	
Light	2,226.49	
Postage and express	3,767.53	
Rent, maintenance, and repairs	30,415.53	
Stationery and forms	5,649.65	
Supplies and petty equipment	4,141.07	
Taxes	12,204.06	
Telegraph	1,228.92	
Telephone	6,219.13	
All other expenses not distributed to a department	8,718.31	
Amount added to reserve for bad debts	16,450.33	
Total general overhead	$115,253.70	16.64
Total internal operation	$240,036.73	34.66
Total expenses	$627,050.23	90.55
Profit	$ 65,427.03	9.44
Gross income	$692,477.26	100.00

The principal differences between agencies are: (1) in the degree of elaboration of, and specialization in, these functions; and (2) in the degree of ability with which the functions are performed.

As an agency grows, and its functions become elaborated and specialized, its organization becomes individually shaped by: (1) the nature of its client's needs; (2) the particular combinations of talent which its personnel possess; (3) the particular management and organization theories of its operators.

In spite of the many divergencies resulting from these influences, all agency personnel in general falls into these groups:

1. Agency principals and operators.
2. Business development and negotiation personnel.
3. Creative talent, such as plan men, writers, art directors, etc. In a highly elaborated organization appear subdivisions of these, such as radio writers, photographers, display specialists, etc.
4. Specialized functional talent, such as research directors, marketing counselors, printing and engraving specialists, media buyers, etc.
5. Service and office routine personnel.
6. Financial management and operations personnel.

In any given agency it is difficult to classify personnel sharply in this way. All that can be said is that as an agency develops in size and specialization of functions its personnel tends to specialize in these ways. But even in the largest agencies there is an overlapping of these functions and a constant shifting of them back and forth as personnel is mobilized for particular needs. Thus in the largest agency a principal may today play a part in the creative processes and tomorrow in new business; research may be done by a copywriter; and an account executive may write copy.

These divisions are further blurred by the fact that an agency's service functions are inextricably bound up with its own business development functions. This merging of functions appears most clearly in the activities of the so-called account executive. It is his duty to see that the client gets the service he wants, but it is also his duty to study the client's needs and develop as many opportunities as possible for a profitable use of advertising by the client.

The same merging of functions appears in the work of creative personnel. The ability to produce a promotion plan or "copy idea"

TABLE XLIII

MEDIAN TOTAL INCOMES FROM AGENCY OF THREE HIGHEST ACCOUNT EXECUTIVES (OTHER THAN PRINCIPALS) IN AGENCIES, BY AGENCY BILLING CLASSIFICATIONS

Amount of Agency Billing	1928		1929		1930		1931		1932	
	Number* of Account Executives	Median† of All Incomes	Number* of Account Executives	Median† of All Incomes	Number* of Account Executives	Median† of All Incomes	Number* of Account Executives	Median† of All Incomes	Number* of Account Executives	Median† of All Incomes
Under $250,000	8	$ 3,510	3	$ 6,000	7	$ 3,900	6	$ 3,051	17	$ 2,860
$ 250,000 to $ 500,000	12	5,200	16	4,030	10	5,683	20	5,250	21	4,100
500,000 to 750,000	14	4,000	14	5,600	20	6,195	8	5,795	8	5,825
750,000 to 1,000,000	9	6,759	15	7,120	13	6,600	15	6,125	7	4,004
1,000,000 to 2,000,000	13	7,500	17	8,000	27	9,000	23	7,500	28	7,000
2,000,000 to 3,000,000	12	11,895	9	15,000	6	10,413	12	10,844	9	8,424
3,000,000 to 5,000,000	21	10,500	15	17,826	15	17,840	15	13,000	12	12,500
5,000,000 to 7,500,000	9	15,000	15	13,200	12	14,250	6	16,250	3	17,500
7,500,000 to 10,000,000	.....	.....	3	19,250	3	24,140	3	26,400	.....	.....
10,000,000 and over	15	18,000	15	22,500	15	18,135	15	18,000	18	16,858
Number of agencies	113	.....	122	.....	128	.....	123	.....	123	.....
	45	.....	48	.....	49	.....	49	.....	47	.....

* Number of account executives vary from year to year as changes in agency volume shift classification of agency.

† The median is the middle figure for a group, which, when all are arranged in order of magnitude, has as many figures above it as below.

which will expand a client's business, and lead to the use of more advertising, is an ability much sought after in the agency business.

This merging appears even in such service functions as research. If by the use of research an agency can exhibit to a client a new opportunity for the development of his business, then research, in such a case, not only performs a service for the client but becomes a business development function for the agency.

Postponing consideration of the agency principal as operator until later in this section, and looking at the remaining types of agency personnel, we see that the business development and creative personnel are the distinctive and major groups, that is, in the common terms, the account executives, the copy writers, and the art directors, other than principals.

Tables XLIII–XLVII show what the total agency incomes were in the five years 1928–32 of the three highest paid account executives, and copy and plan people, and of the one highest paid art director, in various agencies.

TABLE XLIV

NUMBER OF ACCOUNT EXECUTIVES WITH TOTAL AGENCY INCOMES IN DIFFERENT SIZE GROUPS

Includes three highest paid (other than principals) among various agencies.

Amount of Income Received	Number of Individuals Receiving				
	1928	1929	1930	1931	1932
Under $5,000	25	21	21	27	40
$ 5,000–$ 9,999	33	45	46	41	40
10,000– 14,999	21	14	23	26	19
15,000– 19,999	18	20	17	16	15
20,000– 24,999	6	9	8	1	4
25,000– 29,999	4	4	2	5	1
30,000– 34,999	1	4	3	.....	2
35,000– 39,999	2	.....	3	5	2
40,000– 44,999	.....	2	1	.....	.....
45,000– 49,999	.....	1	3	1	.....
50,000– 54,999	1	2	.....	1	.....
55,000– 59,999	.....	.....	.....	.....	.....
60,000– 64,999	1	.....	.....	.....	.....
65,000– 69,999	1	.....	.....	.....	.....
70,000 and over	.....	.....	1*	.....	.....
Total	113	122	128	123	123

* $88,826.

TABLE XLV

MEDIAN TOTAL INCOMES FROM AGENCY OF THREE HIGHEST PLAN AND COPY PEOPLE
(OTHER THAN PRINCIPALS) BY AGENCY BILLING CLASSIFICATIONS

Amount of Agency Billing	1928		1929		1930		1931		1932	
	Number* of Plan and Copy People	Median† of All Incomes	Number* of Plan and Copy People	Median† of All Incomes	Number* of Plan and Copy People	Median† of All Incomes	Number* of Plan and Copy People	Median† of All Incomes	Number* of Plan and Copy People	Median† of All Incomes
Under $250,000	4	$ 3,060	1	$ 3,000	4	$ 5,550	8	$ 3,341	10	$ 3,835
$ 250,000 to $ 500,000	7	3,373	10	3,900	7	3,000	17	4,320	24	4,125
500,000 to 750,000	18	4,166	24	4,285	23	5,000	14	4,354	6	5,700
750,000 to 1,000,000	14	6,000	16	5,000	12	5,300	14	5,800	12	5,000
1,000,000 to 2,000,000	20	5,500	21	6,226	29	6,500	24	5,500	31	5,556
2,000,000 to 3,000,000	9	8,040	9	11,218	9	6,214	12	9,475	9	8,424
3,000,000 to 5,000,000	21	9,440	15	8,500	15	10,000	15	8,000	12	9,350
5,000,000 to 7,500,000	12	13,084	15	10,000	12	11,080	6	10,550	3	12,231
7,500,000 to 10,000,000	.....	.....	6	16,432	6	19,235	.....	.....	.....	.....
10,000,000 and over	18	18,000	15	20,000	15	18,000	21	19,280	21	18,000
Number of agencies	123	.....	132	.....	132	.....	131	.....	128	.....
	48	.....	50	.....	52	.....	49	.....	49	.....

* Number of plan and copy people vary from year to year as changes in agency volume shift classification of agency.

† The median is the middle figure for a group, which, when all are arranged in order of magnitude, has as many figures above it as below.

TABLE XLVI

NUMBER OF PLAN AND COPY PEOPLE WITH TOTAL AGENCY INCOMES IN DIFFERENT SIZE GROUPS

Includes three highest paid (other than principals) in various agencies.

Amount of Income Received	Number of Individuals Receiving				
	1928	1929	1930	1931	1932
Less than $2,500	3	4	5	5	10
$ 2,500–$ 4,999	33	24	24	32	31
5,000– 7,499	31	37	33	38	43
7,500– 9,999	14	16	16	19	11
10,000– 12,499	16	25	25	12	10
12,500– 14,999	9	7	7	4	7
15,000– 17,499	8	8	8	8	4
17,500– 19,999	2	2	3	3	7
20,000– 22,499	2	3	4	5	2
22,500– 24,999	.....	.....	1	1	.....
25,000– 27,499	1	1	.....	.....	2
27,500– 29,999	.....	1	3	1	.....
30,000– 32,499	2	.....	.....	1	.....
32,500– 34,999	.....	1	.....	.....	.....
35,000– 37,499	.....	.....	.....	.....	.....
37,500– 39,999	1	.....	.....	1	.....
40,000– 42,499	.....	1	.....	.....	1
42,500– 44,999	.....	.....	1	.....	.....
45,000 and over	1*	1†	2‡	1§	.....
Total	123	132	132	131	128

* $60,784.

† $55,942.

‡ $94,326; $51,329.

§ $59,326.

AGENCY PRINCIPALS AS AGENCY OPERATORS

In a small agency the principals sell primarily their personal services. The reports of such agencies show no account executives other than principals, and often no copy people other than principals.

As the size of the agency increases, copy assistants appear first, then art directors, then an occasional account executive.

TABLE XLVII

NUMBER OF ART DIRECTORS WITH TOTAL AGENCY INCOMES IN DIFFERENT SIZE GROUPS

Includes one highest paid in number of agencies shown in totals.

Amount of Income Received	Number of Individuals Receiving				
	1928	1929	1930	1931	1932
Less than $2,500	.....	2	2	2	2
$2,500–$ 4,999	9	8	7	9	14
5,000– 7,499	9	10	10	13	11
7,500– 9,999	4	5	7	4	3
10,000– 12,499	7	8	5	2	2
12,500– 14,999	2	.....	2	3	3
15,000– 17,499	4	5	4	2	4
17,500– 19,999	2	3	3	2	2
20,000– 22,499	1	1	1	3	.....
22,500– 24,999	.....	.....	.....	1	.....
25,000– 27,499	.....	.....	.....	.....	1
27,500– 29,999	.....	.....	1	.....	.....
30,000– 32,499	.....	.....	.....	1	.....
Total	38	42	42	42	42

But at all levels the agency principal appears as a working member of the agency staff, with the business built to a large extent on his personal following and performance. The absentee owner of an advertising agency today is practically unknown.

Comparison of agency principals of today with those of an earlier generation shows a striking change in the pattern. The older agent, as shown in Section II, was necessarily a trader. But price stabilization in the publishing and agency business left no scope for his talents, and the new service competition created an opportunity for, and brought to the front, a new type of man.

This new type man is like the older in that he prefers the risks and possible rewards of individual enterprise to the relative security of a job, say as advertising manager. He is like the older type also in being promotion-minded. But he shows increasingly a professional attitude toward his task, and is often himself a skilled creative worker. In the higher ranges he is a student of business and of public opinion, and a practitioner in the art of bringing these into a profitable relationship.

The foundation of success in agency operation today is, therefore, primarily the personal advertising abilities of its principals. But beyond a given point the degree of success an agency has will be determined by the possession or inclusion of other than advertising abilities in the principals group. In part these will be abilities common to all business enterprise: business judgment, courage, and vision. But peculiarly in the agency business the ultimate degree of success will rest upon the ability to choose, inspire, and lead personnel. The operation of a large agency is not only a problem in business management but a problem in orchestration.

The rewards of agency principals in the lower ranges are primarily for personal advertising services. In the higher ranges they are the rewards for outstanding personal advertising ability combined with business and personnel management ability—a combination which is apparently rare.

AGENCY INCOME OF AGENCY PRINCIPALS

Because of the above indicated strong personal element in agency operations, it is believed that the true measurement of agency profits is the earnings of agency principals. The agency questionnaire included in the Appendix shows how information as to these earnings was sought.

This questionnaire was sent to all members of the American Association of Advertising Agencies and to 129 agencies of various sizes not members of this association. Replies with complete data on earnings of principals were received from 61 agencies for the five years 1928–32, inclusive, and from 67 agencies for the last two years.

Each agency was asked to classify as "principals" all those members of the organization who bore the major responsibility and risks

of management, and who received an important part of their total agency income as a share of agency profits.

They were then asked to compute the total agency income of this group in all forms—salaries, bonuses, commissions, etc., plus share of corporate earnings, divided and undivided, or less share of corporate losses, if any. From the sum so arrived at they were asked to deduct 6 per cent on the amount of capital belonging to this group, and employed in the business.

They were then asked to report the net amount so arrived at as a percentage of their total billing, in each year 1928–32, inclusive.

Table XLVIII gives these percentage figures. They represent the total financial rewards received by, or accruing to, the entire group of principals, after allowing 6 per cent on their capital investment. Thus they represent the reward both for services performed in the activities of the business and for management ability, enterprise, and risk.

In Table XLIX an estimate is made of the approximate average dollar income for all principals of all reporting agencies of different sizes.

VARIATIONS IN AGENCY PROFITS BY CLIENTS

Few agencies keep cost accounting records which show costs and profits on the work done for individual clients. The nature of agency operations makes it difficult to get cost data of this kind which will be accurate, and makes the cost of getting this data greater than many agencies believe it is worth. Some agencies do not believe in keeping such records because they do not want their staff to consider service to the client in terms of its cost or profit to the agency.

A few agencies, however, were able to furnish data which is considered fairly reliable as indicating the general nature of the variations in profits by accounts.

To avoid the possibility of identification, the data from all these agencies have been combined to make one exhibit in Table L.

From these data, and from a check of the observations of experienced agency operators, the following appear to be the general facts governing variations in agency profits by accounts.

First, that an "account" must be viewed as the expenditures on a

TABLE XLVIII

PERCENTAGE OF TOTAL BILLINGS RECEIVED OR ACCRUING TO PRINCIPAL OWNERS' GROUP IN AGENCIES OF VARIOUS SIZES, AFTER 6 PER CENT ON THEIR CAPITAL INVESTMENT

(Figures in italics indicate loss)

Volume of Billing	1928			1929			1930			1931			1932		
	No. of Agencies	Range (per Cent)	Median (per Cent)	No. of Agencies	Range (per Cent)	Median (per Cent)	No. of Agencies	Range (per Cent)	Median (per Cent)	No. of Agencies	Range (per Cent)	Median (per Cent)	No. of Agencies	Range (per Cent)	Median (per Cent)
Under $250,000	5	3.8– 9.9	5.5	3	4.2–8.9	8.7	6	4.8–13.5	6.3	8	3.0–10.2	6.0	14	3.8– 9.1	6.1
$ 250,000 to $ 500,000	10	1.0– 9.4	5.4	11	1.2–7.9	5.0	6	1.0– 7.0	4.0	15	0.0– 9.8	4.5	16	0.0–9.1	4.1
500,000 to 750,000	9	3.8– 9.0	6.9	12	2.3–9.0	5.4	13	2.7– 8.3	6.1	8	0.4–11.1	5.9	4	0.1–11.3	4.7
750,000 to 1,000,000	8	2.7–10.0	4.8	6	1.5–8.0	5.7	7	3.4–10.4	6.0	6	1.7– 5.7	4.2	6	2.1– 6.0	4.5
1,000,000 to 2,000,000	9	2.1–13.3	4.8	10	1.4– 7.7	4.8	13	0.8– 6.0	4.1	12	1.6– 6.0	3.5	12	0.2– 5.6	2.8
2,000,000 to 3,000,000	4	3.5– 6.2	4.3	4	1.6– 7.8	4.0	3	2.6– 5.5	3.9	4	0.7– 3.6	2.8	3	1.3– 8.0	4.5
3,000,000 to 5,000,000	7	2.1– 6.4	4.9	5	1.9– 6.0	6.0	5	4.0– 5.7	2.5	5	0.4– 7.3	1.3	4	1.2– 5.6	2.0
5,000,000 to 7,500,000	4	3.6– 7.0	4.9	5	3.0– 6.8	5.3	4	3.2– 7.3	4.9	2	3.5– 4.6	4.0	1	.....	2.6
7,500,000 to 10,000,000	.....	.....	.....	2	3.5– 6.1	4.8	2	3.1– 5.8	4.4	.....	.....	.....	.....	.....	.....
10,000,000 and over	5	2.2– 4.0	2.4	5	1.7– 3.3	2.9	5	1.2– 3.0	2.0	7	0.6– 2.6	1.4	7	0.6– 2.5	1.4
Total	61	.....	.....	63	.....	.....	64	.....	.....	67	.....	.....	67	.....	.....

TABLE XLIX

ESTIMATED* AVERAGE INDIVIDUAL INCOME RECEIVED OR ACCRUING TO AGENCY PRINCIPALS FROM AGENCY OPERATIONS

Amount of Agency Billing	1928		1929		1930		1931		1932	
	Number of Principals	Average Income of Group	Number of Principals	Average Income of Group	Number of Principals	Average Income of Group	Number of Principals	Average Income of Group	Number of Principals	Average Income of Group
Under $250,000	9	$ 4,400	7	$ 3,900	13	$ 4,700	18	$ 4,800	27	$ 2,600
$ 250,000 to $ 500,000	21	9,500	20	9,700	12	10,700	28	8,300	37	7,300
500,000 to 750,000	23	16,200	34	12,200	34	12,900	26	10,700	16	4,900
750,000 to 1,000,000	28	12,800	18	12,500	20	15,900	19	9,000	21	10,900
1,000,000 to 2,000,000	24	19,600	32	20,400	47	16,600	38	17,000	34	8,000
2,000,000 to 3,000,000	12	38,400	13	33,400	6	34,000	11	19,300	10	30,000
3,000,000 to 5,000,000	33	36,000	21	42,800	17	21,600	27	20,000	23	19,000
5,000,000 to 7,500,000	19	66,800	23	69,200	25	50,700	9	50,000	2	115,500
7,500,000 to 10,000,000	.....	.....	10	84,400	10	69,000	.....	.....	.....	.....
10,000,000 and over	33	126,000	33	101,000	32	77,000	43	64,000	43	45,700

* This estimate was made by applying the percentages from the preceding table to the volume and arriving at an estimated total dollar income of the principals group. This was then averaged by all the principals in all agencies in the same size groups. Volume was estimated for all size groups, except the highest and lowest, by taking the middle figure in the volume range. For the lowest group an estimated average volume of $125,000 was taken. For the highest group approximate actual volume was known.

single product or unified line of products advertised together. A volume of, say, $1,000,000 on three individual products from one company will not be handled by the agency at materially, if any, less cost than the same volume from three different companies.

Second, that the same account will yield materially different rates of net profit on the same volume in different agencies. Thus, an account of $100,000 may show a loss in the cost accounting of one agency and the same account show a satisfactory net profit in another agency. This will be due to variations in the nature and costs of the service in two different agencies, or to variations in how the agency's current situation affects the spread of overhead. Or, it may be due to such factors as one agency having a personnel whose experience in a particular field makes the account less expensive to serve than it would be in another agency.

Third, that in any given agency two accounts of approximately the same size will yield widely varying rates of net profit. Thus, in Table L is an account with an expenditure of $1,034,560 which yielded the agency a net profit of $\frac{69}{100}$ of 1 per cent. In the same agency at the same time was an account with an expenditure of $1,113,864 which yielded the agency a net profit of 9.72 per cent. This difference was due in part to a difference in the actual current advertising requirements of the two accounts, and in part due to a difference in the nature of the two organizations with which the agency had to deal.

Fourth, that in any given agency the same account, with approximately the same expenditure from year to year, may yield a widely varying rate of net profit. Thus in Table LIX is an account with an expenditure of $49,062 in 1931 on which the agency showed a loss of *5.6 per cent.* The same account in 1932 had expenditures of $47,861 and the agency costs on it for this year showed a loss of *2.25 per cent* against the loss of *5.6 per cent* for the preceding year. In the table also is an account with 1931 expenditures of $545,226 which showed a net profit of 2.43 per cent. The same account with slightly higher expenditures in 1932 showed a net profit of 7.24 per cent.

Fifth, that the rate of net profit to the agency from a given account will depend in part on the relation that account has to other accounts in the same agency. Thus if an agency with a group of

TABLE L

RATE OF NET PROFIT OR LOSS ON ACCOUNTS OF VARIOUS SIZES IN A NUMBER OF AGENCIES FOR THE YEAR 1931

Size of Account	Number of Account	Rate of Net Profit or Loss as Per Cent of Total Billing	
Under $50,000	1	9.78	Profit
	2	9.15	
	3	7.80	
	4	7.18	
	5	6.96	
	6	4.79	
	7	4.47	
	8	4.40	
	9	4.28	
	10	1.04	
	11	0.58	
	12	0.04	
	13	*0.03*	Loss
	14	*0.74*	
	15	*0.81*	
	16	*0.97*	
	17	*1.81*	
	18	*2.97*	
	19	*3.55*	
	20	*3.87*	
	21	*5.60*	
	22	*6.90*	
	23	*6.99*	
	24	*7.41*	
	25	*9.78*	
	26	*9.88*	
	27	*9.90*	
	28	*10.66*	
	29	*11.60*	
	30	*11.91*	
	31	*12.05*	
	32	*16.44*	
	33	*17.21*	
	34	*19.11*	
	35	*21.01*	
	36	*22.71*	
	37	*27.67*	
	38	*63.17*	
	39	*128.26*	
	40	*647.40*	
$ 50,000 to $100,000	1	6.07	Profit
	2	5.63	
	3	1.81	
	4	*10.40*	Loss

TABLE L—*Continued*

Size of Account	Number of Account	Rate of Net Profit or Loss as Per Cent of Total Billing	
$100,000 to $250,000	1	10.94	Profit
	2	7.96	
	3	6.85	
	4	6.52	
	5	4.19	
	6	4.04	
	7	3.21	
	8	3.15	
	9	2.37	
	10	1.29	
	11	1.27	
	12	0.01	
	13	*0.45*	Loss
	14	*2.48*	
	15	*2.85*	
	16	*3.32*	
	17	*4.03*	
	18	*5.37*	
	19	*13.15*	
$250,000 to $500,000	1	9.49	Profit
	2	7.42	
	3	6.78	
	4	6.67	
	5	6.59	
	6	5.78	
	7	5.16	
	8	4.82	
	9	4.79	
	10	4.31	
	11	3.89	
	12	3.49	
	13	3.10	
	14	3.01	
	15	2.32	
	16	2.32	
	17	1.42	
	18	1.35	
	19	1.02	
	20	0.23	
	21	*9.40*	Loss
	22	*9.88*	
$500,000 to $1,000,000	1	6.69	Profit
(*Continued on next page*)	2	6.44	
	3	6.41	
	4	5.65	
	5	5.22	
	6	2.43	
	7	1.18	
	8	0.87	
	9	0.43	

TABLE LIX—*Continued*

Size of Account	Number of Account	Rate of Net Profit or Loss as Per Cent of Total Billing	
$500,000 to $1,000,000—*Cont.*	10	*1.50*	Loss
	11	*1.83*	
	12	*2.22*	
	13	*6.27*	
Over $1,000,000	1	9.74	Profit
	2	9.72	
	3	9.72	
	4	7.63	
	5	7.43	
	6	4.97	
	7	1.80	
	8	0.69	
	9	*3.77*	Loss

accounts averaging below $100,000 secures suddenly one account with expenditures exceeding $250,000, its rate of net profit from this one (to it) very large account will tend to be much higher than its average rate of profit.

Sixth, that in a large agency there is a tendency for all accounts with expenditures under $100,000 to show a loss, where the same accounts in a smaller agency will show a satisfactory profit. This will be due to the fact that large agency personnel will, on the average, be more costly, and to the fact that these accounts may carry a share of overhead charges which are incurred primarily for large accounts.

Seventh, that for accounts between $100,000 and $1,000,000, no marked or consistent trend can be discerned in the rate of net profit by size of account, which will hold true for all agencies.

Eighth, that in accounts above $1,000,000 (on single products) there appears some tendency for the rate of net profit to increase, and that this tendency becomes marked above $3,000,000. It should be pointed out, however, that the amount of data which indicates this is very limited and that not all accounts over $1,000,000 always yield a profit. Thus the table shows one account over $1,000,000 which showed a loss of *3.77 per cent* in 1931. The same account exceeded $2,000,000 in 1932 and showed a loss of *0.38 per cent*. Over

a ten-year period this account, with expenditures in excess of $1,000,000 in each year, showed an average net profit for the whole period just under 3 per cent.

In brief, it appears that, as a whole, costs and profits in agencies do not vary by the size of a client's expenditures. They vary in part by the nature of the product advertised; in part by the nature of the media used; in part by the degree of success the advertising is having at the particular moment; in part by the temperament and organization of the advertiser; in part by the amount of collateral support the advertiser's organization needs or demands; in part by the individual agency's current internal situation.

EFFECT OF GENERAL BUSINESS RECESSION ON AGENCY VOLUME

From 66 agencies of all sizes data were secured showing what their total billing was for the five years 1928–32, inclusive, in percentages of their 1928 billing. That is, the 1928 billing was taken as a base of 100 per cent and each succeeding year's billing was shown as a percentage of this. (See agency questionnaire in Appendix.)

The median, or middle figure, shown by all these 66 agencies in each year is given in Table LI.

TABLE LI

Billing	Per Cent
1928	100
1929	112
1930	101
1931	87
1932	63

Table LII indicates how the volume of these 66 agencies fluctuated over the five-year period, as shown by the range between the lowest and highest figures in each volume group. From this table it will be seen that individual agencies run contrary to the trend in all years, some agencies having marked losses in volume when agency volume as a whole was rising, and some having marked increases when agency volume as a whole was declining.

The effects of business recession on agency personnel and salaries are also shown in Table LIII.

TABLE LII

RANGE BETWEEN LOWEST AND HIGHEST OF 66 AGENCIES IN PERCENTAGE OF GAIN OR LOSS OVER 1928 VOLUME

EXAMPLE: Reports were received from 5 agencies with a volume under $250,000 in 1928. In 1929 one of these 5 agencies had a volume of 95 per cent of its 1928 volume, and this was the low figure for that group. Another of the 5 had a 1929 volume 151 per cent of 1928 volume, and this was the highest gain reported by any member of the group.

Number of Agencies	1928 Volume	1929		1930		1931		1932	
		Low (per Cent)	High (per Cent)	Low (per Cent)	High (per Cent)	Low (per Cent)	High (per Cent)	Low (per Cent)	High (per Cent)
5....	Under $250,000	95	151	86	281	58	282	60	173
13....	$ 250,000 to $ 500,000	72	160	48	228	43	158	26	124
10....	500,000 to 750,000	82	157	32	199	50	267	34	165
8....	750,000 to 1,000,000	89	165	76	232	38	239	43	134
10....	1,000,000 to 2,000,000	75	155	64	109	46	115	10	116
4....	2,000,000 to 3,000,000	52	124	52	101	39	80	24	62
7....	3,000,000 to 5,000,000	98	150	82	150	56	122	17	112
4....	5,000,000 to 7,500,000	95	134	107	156	100	193	64	250
0....	7,500,000 to 10,000,000	.....	.....	.....	.....	.....	.....	.....	.....
5....	10,000,000 and over	108	126	95	154	93	226	57	148
66....	All cases.....	52	165	32	281	38	282	10	250

TABLE LIII

PERCENTAGE SALARY CUTS OF PERSONNEL OF AGENCIES

Percentage Change in Salary	Number of Agencies		
	1930	1931	1932
No change.....	50	23	7
Flat decrease:			
Less than 5%.....	0	0	0
5.0– 9.9.....	2	2	1
10.0–14.9.....	5	19	15
15.0–19.9.....	0	4	6
20.0–24.9.....	1	2	7
25.0–29.9.....	0	2	4
30.0–34.9.....	0	2	1
35.0–39.9.....	0	0	2
40.0–44.9.....	0	0	1
45.0–49.9.....	0	0	1
50.0 and over.....	0	1 (54%)	1 (67%)
Rate varies with salary (see Supplementary Data).....	8	13	23
Increase.....	1 (37%)	0	1 (13%)
Total.....	67	68	70
Average cut (Median).....	0%	10%	14%

SUPPLEMENTARY DATA ON SALARY CUTS

Agencies in which salary cuts varied:

1930 None
1931 One office, 10% straight; second office, 10% over $200; third office, various arbitrary cuts
1932 One office, 10% straight; second office, 5% over $200 and 10% under $200; third office, various arbitrary

1930 5%
1931 11%
1932 7% on $1,000–$2,500; 8% on $2,500–$5,000; 10% on $5,000–$7,500; 12% on $7,500–$10,000; 14% on $10,000 and over

1930 Compensation reduced 7% through elimination of pay-roll bonuses. Special bonuses reduced 9.16%
1931 Special bonuses reduced 14.29%
1932 Salaries reduced 10%. There was also a reduction of 30% in the dividend on the common stock. This is equivalent to a reduction in compensation, as the stock is widely held in the organization

1930 5%–20%
1931 15%
1932 10%

TABLE LIII—*Continued*

1930 None
1931 10% Office No. 2
1932 10% Office No. 2; 10% and 10% Offices No. 1 and No. 3

1930 None
1931 Principals only 16.33%
1932 None

1930 None
1931 None
1932 Graduated scale 5%–27½%
Graduated scale 10%–17½%

1930 16.66%–50% applying only to chief executives
1931 10%
1932 15%

1930 None
1931 None
1932 10%–40%

1930 None
1931 None
1932 From 10%–50%

1930 None
1931 None
1932 One, 28%; one, 25%; all other salaries $4,000 and over cut 10%

1930 None
1931 Approximately 10% in one branch office and large reduction in personnel generally
1932 From 10% to 33⅓%—largest reductions for officers

1930 None
1931 10%
1932 (From 1930 salaries) Principals 30%, employees 15%

1930 Officers 10%
1931 Officers 40%; production man 22½%
1932 Officers 57%; general office 30%

1930 None
1931 80% to officers of corporation (3 officers are the 3 stockholders)
1932 15% to office force in addition to continuing above to owners

1930 Principals 10%
1931 All 10%
1932 March 1, all 10%; August 1, principals 25%, all others 20%

1930 None
1931 None
1932 Principals 50%; others 25%

TABLE LIII—*Continued*

1930 10% on all salaries over $200 per month
1931 Continued 1930 cut and added to it 10% cut on all salaries $100–$200
1932 10%–30% additional on all salaries over $100 varying in proportion to size of salary
(NOTE.—All salaries over $100 are now from 20% to 40% below their 1930 figure.)

1930 None
1931 Beginning August several employees 18%; one 30%
1932 Beginning July several employees half-time; one cut 13%

1930 Chief executives cut 16⅔%, total pay-roll cut 40%
1931 Total pay-roll cut about 50% under 1928
1932 Pay-roll increased to 76% of 1928 figures, but all employees, including heads, on 16⅔%–50% reduced basis

1930 None
1931 10%–25%
1932 25%

1930 10%
1931 None
1932 40% principals; 20% organization

1930 None
1931 Staff 10%; officers (see 1932)
1932 Staff 12½%; officers cut 55% in several cuts during 1931 and 1932

1930 None
1931 5%–10%
1932 15%

1930 None
1931 10%
1932 A further 10% among a few

1930 January 1, 1930, officers and owners cut 20%
1931 October 15 all salaries cut as follows:

$ 900–$ 5,000	10%
5,000– 10,000	12
10,000– 15,000	15
15,000 and over	20

1932 July—Everyone in the organization, one week's vacation without pay in addition to 2% of annual salary
September—Adjustments of individual salaries but not a general percentage cut. Amount of salaries cut averaged 5% for entire organization
NOTE.—There has been a continual reduction in the number of employees from 621 people on the pay-roll September 1, 1929, to 297 people on the pay-roll December 31, 1932.

1930 None
1931 75% of officers reduced; 25% of personnel (salary volume), 10% salary reduction for balance of personnel

TABLE LIII—*Continued*

1932	All offices took substantial reductions in personnel and 10% and 20% salary reductions
1930	None
1931	10% October 1
1932	Partially reinstated 10% cut July 1
1930	None
1931	15% over $100 weekly; 10% on $100 or less
1932	2 temporary cuts of one month each—25% each month

PART II

CONCLUSIONS

CONCLUSIONS

The history of the advertising agency clearly shows that no advertiser, publisher, or agency-owner deliberately planned and set up the agency structure as it exists today.

Instead, this history exhibits perfectly the process by which, as one student of society describes it, every social institution grows, namely, "that the men [involved in it], each struggling to carry on existence, unconsciously cooperate to build up associations, organization, customs and institutions which, after a time, appear full grown and actual, although no one intended, or planned, or understood them in advance."[1]

The advertising agency came into existence and developed in association with the periodical publishing business. But its history makes clear the fact that no publisher created it. It would appear truer to say that the agency created the modern publisher, by taking what was originally a by-product of the publishing business and making its sale so valuable that the entire economics of publishing was changed.

In particular, no publisher planned or created either the method or the rate of agency compensation in force at any given time. These always grew out of agency experience, and each individual publisher accepted or rejected either the one or the other, as his own profit experience or competitive conditions dictated. As that experience has, at times, disclosed a long-run value to the publisher in a given course of action or development he has, individually or collectively, affirmed and supported that long-run and general view against the short-run and individualistic view. But such publisher "legislation" with regard to agency compensation always took place after the fact, when agency practice had disclosed the profit trend.

Not since its very earliest days does the advertising agency appear, in the real sense of the term, as the "agent" of the publisher. Men who enter the agency business have always done so, typically,

[1] Sumner, *Folkways*.

as independent entrepreneurs, risking their own capital and seeking a profit in their own ways, in competition with other ways. In selling what they had to sell, or in performing what they undertook to perform, they have served the interests of both publishers and advertisers when either found it profitable to engage them to do so. They have never had any other franchise from either.

In his search for a profit the agency operator or advertising man has tried many ways of finding it. He has sought it by promoting the sale of advertising space alone; by offering a creative advertising service alone; by offering advertising counsel alone; by working for some one advertiser alone. And he has tried these ways at all periods and at all sorts of prices.

Of all the methods tried, that which consistently proved most productive for a certain sort of man was found in promoting and facilitating the use of the periodical publisher's space. Out of this activity grew the advertising agency.

In the process of promoting the use of the publisher's space both agency operator and publisher learned from experience three facts which appear to be fundamental and universal in their application to the sale of advertising. These are:

First, that the use of advertising does not result from an acute need felt by the advertiser as often as it does from a conception of future possibilities presented to him. Therefore such conceptions for the use of advertising may profitably be sold.

Second, that such conceptions may be sold most easily through the creation of advertising copy, and are in fact very difficult to sell without it.

Third, that the use of advertising is most soundly sold where the best opportunity exists to study its application to a particular advertiser's possibilities.

All that the advertising agency is and does today grew out of its experience with these three facts in the promotion of the use of advertising. Advertising agencies gradually developed a more effective mechanism for supplying these three requirements of advertising promotion than any individual publisher was able to develop. As this was demonstrated, periodical publishers ceased competing

with agencies in these activities, and eventually some other types of media owners did the same.

It was a part of this experience that the agency mechanism developed the greatest efficiency where its price basis was stabilized, its choice of media the most impartial, and its competition for the advertiser's patronage on the basis of creative service rather than price. The demonstration of this by leading agencies led the publisher to recognize that he had a vital interest in supporting and encouraging one type of agency operation as against another.

This publisher support accelerated the development of the agency as we know it today. Crystallizing in the publisher's recognition standards, it protected the agency in its development of new advertisers; furnished a check on inexperience in the agency business; set a public-opinion standard for agency compensation; encouraged the expansion of agency service; and weeded out the men who could not compete in the delivery of that service.

Upon the operations of the agency mechanism as thus developed, the publishing business of the entire country now relies for a very large proportion of its income, as seen in Section I. The interests, greater or less, of seventeen thousand publishers are involved in the agency structure. Few, if any, of these are able to perform the functions the agency now performs for them. Irrespective of the question of compensation, the preservation of the agency mechanism is a necessity to the publisher.

The reason for this can be seen clearly in Section IV. The determining factor in publishers' profits is volume of advertising. The volume attainable by any individual publisher will depend in large part on the total pool of advertising available for all publishers—as shown by current figures for advertising lineage. In order to maintain and increase this total pool a constant development of new advertisers and new products from old advertisers must take place.

It may also be seen in Section IV that a factor of the greatest importance in the maintenance and growth of advertising volume is the mortality rate among advertisers, new and old. The incentive to the publisher to do everything in his power to reduce this mortality rate is obvious.

Through some mechanism, therefore, the publisher will always

promote the use of his product to new advertisers and to old. Whatever mechanism is used will always rely upon the creation of advertising conceptions, and upon the visualization and expression of these conceptions in advertising copy, as its most effective promotion tool. It will, further, try to insure the continued use of the product by supplying advertising experience and skill to the inexperienced and inept.

If this view is correct, then advertising service in some form will always be a part of the publisher's promotion. The only questions will be what form this service will take and how the cost of it will be distributed.

The force of this fact has been obscured, sometimes for publishers themselves, by the development of the creative part of publishers' promotion in an independent mechanism serving all publishers; and by the identification of this mechanism psychologically with the interests of a particular advertiser as against, at times, the immediate interests of a particular publisher.

As long as this necessity exists for the promotion of advertising through the creation of advertising, and for guidance of the inexperienced, the agency mechanism will be vital to the publisher's interests. It is not a question whether, individually, publishers could supply this need at a lower cost in some other way—the history of the agency's natural development is prima facie evidence that they could not. The pertinent question is whether individually publishers could perform these functions at any cost. A few of the larger ones might perform them in some degree. But for application of the principle that advertising is sold most soundly where the best opportunity exists to study its application—this no individual publisher can perform.

If the agency's incentive to promote and protect the use of advertising were removed, it would be necessary for the publisher, in his own interest, to re-create a similar mechanism with a similar incentive.

The individual advertiser's interest is in the final cost of advertising to him. In this final cost there are two major factors: the price of the publisher's space and the use the advertiser makes of that

space. In terms of true cost, that is, results, the use made of space is the most important of these two cost factors (see p. 86, Sec. III).

It is seen in Section IV that the price of the publisher's space, that is, his advertising rate, depends at any given moment on a complex of interrelated factors. But in the long run the governing factor will be the total available volume of advertising. As volume increases, the publisher's rate will tend to go down; and as volume decreases, his rate will tend to go up.

These results will be delayed, and even reversed at times, by competitive and other factors affecting the publisher's price, but in the long run volume will determine the advertising rate.

The individual advertiser, therefore, has an interest at stake in the maintenance of the total volume of advertising. This interest is long run and indirect, where the publisher's is immediate and direct, but it is none the less real. It would appear to follow that the individual advertiser has an interest also at stake in the total advertising volume promotion and protection activities of the agency—unless these activities conflict with the advertiser's more direct interests in the effective use of space for himself.

The possibility of such a conflict is expressed in the idea that the agency's counsel is vitiated: (*a*) by the fact that it has an incentive to sell advertising as a whole; (*b*) by the fact that not all forms of advertising are equally profitable to the agency to sell.

This idea has some basis in fact. There are undoubtedly cases where such a conflict has worked to the disadvantage of the advertiser.

As seen in Section V, however, there exist within the agency, and in agency competition, powerful checks and balances to any short-range view in serving the individual advertiser. The agency has its strongest incentives, not in the immediate profit to it from a given kind of advertising, but in maintaining the confidence of each advertiser and in doing all in its power to make him a successful and satisfied user of advertising.

That these incentives work in an overwhelming majority of cases is testified to by advertisers. As seen in Section III, few advertisers have any criticism of their agencies as a service mechanism. They

consider it as one necessary or desirable for their business; they value the services received from it; and many believe they could not supply themselves with such services as efficiently or as cheaply in any other way. The specific services which they receive show that many agencies, at least, operate in fields in which there is either no direct profit incentive or a limited one. And the majority of advertiser-agency relationships are on a basis of intimacy and confidence.

That the agency is primarily an advocate of advertising as a method of securing results may be accepted as basic to its operations. This is its function, and it appears to be most valued by advertisers as a whole when it devotes itself strictly to this function. As an advocate it cannot claim complete impartiality; it can only claim that it has the usual business incentives to advocate wisely.

Within its function as an advocate of advertising the agency has some limitations as to forms of advertising. Its strength is that it has fewer of these than any other advocate. That these limitations do not completely inhibit the agency's activities with regard to non-commissionable forms of advertising is shown by the description of services received by advertisers in Section III.

What is probably true is that, by and large, the agency does not study and develop the possibilities of non-commissionable advertising. In these, either no organized medium exists, or the publisher competes with the agency in creative service, or the advertiser has been unwilling to supply an incentive for the agency.

The major question raised about the advertising-agency structure, and the only criticism of it made by any considerable number of advertisers, is that it operates to distribute its costs inequitably among advertisers.

It is seen in Section III that at all levels of expenditure, from the highest to the lowest, there are advertisers who are satisfied with agency compensation in their own case. It shows that the majority of advertisers have no criticism on this score. But it also shows that at all levels of expenditure there are advertisers who feel that their agency receives an excessive compensation for the services performed in their case, and the percentage of such advertisers is substantial in groups with expenditures above $500,000.

However, even some advertisers who are satisfied with agency compensation in their own case hold the view that what the advertiser buys from the agency is personal service. They see it as a defect in the structure that, having bought this service, the advertiser is asked to pay for it, not a price determined by the quantity and quality of the thing he buys, but a price determined by the quantity of another thing (space), which has no necessary direct relation to what he wants and buys from the agency.

As a corollary to this, some advertisers feel that the agency is tempted to offer, and the advertiser to accept, services which are unneeded or could be secured cheaper elsewhere, and that this leads to extravagance and waste, and hampers the advertiser's freedom of choice in securing the services he wants.

The table of agency profits by accounts seen in Section V shows clearly that high rates of net profit are currently produced by some accounts at all levels. Therefore, at any given moment, in any given agency, there are accounts on which the rate of profit is high as measured against the current service to the individual advertiser. It is, therefore, natural for such advertisers to consider their costs excessive, measuring them as they do in terms of their individual service only.

In this sense the distribution of agency costs is inequitable: currently and directly some advertisers get more service than they pay for; some get less.

This same type of inequitable or uneven distribution of costs runs through other parts of the advertising structure, although they are not so discernible as in a direct comparison between agency service and income for a given advertiser. Thus the agency commission is unevenly distributed as between individual periodical publishers, the large publisher paying more than it costs at times to service advertisers in his publication, and the small publisher paying less. Similarly, a whole class of publishers may at times be said to carry in their rate the cost of the agency's work in developing the use of a new and competing medium.

It may be clearly seen in Section V that this uneven distribution of agency costs to advertisers does not occur on a volume of expenditure basis. There are high rates of profit on some small accounts and

there are losses on some very large accounts. At all expenditure levels there are both losses and profits from current operations on individual accounts. It is seen that the causes of these variations are many, and volume of expenditure is only one factor in the result.

The only exception to this appears to be where expenditures run above $3,000,000 on a single product. In such cases the volume factor appears to outweigh all other variables and to produce a consistently high rate of net profit. It is possible that this weight of the volume factor begins to operate when expenditures on a single product go above $1,000,000, but from the evidence available this is not sure.

All the foregoing and other criticisms of the method and rate of agency compensation are rooted in the same idea: that the advertiser should secure advertising counsel and service separate from the purchase of advertising space.

It is, of course, a fact that the advertiser is now free to do this if he chooses, and some advertisers do so. But it is also a fact that he must now pay a premium to secure service in this way.

The practical difficulty with this idea arises from the fact that, whereas some advertisers would like to buy service and space separately, no publisher can afford to sell space alone.

The fact that some advertisers will buy advertising space without urging, and that some will provide themselves with skilful service for the use of this space, appears beside the point. In some form and through some mechanism the publisher will always attempt to stimulate the use of his space with creative advertising conceptions, and to minimize the hazards of its use by providing experience for the inexperienced. The cost of this will be borne somewhere in the publisher's price structure and be paid in part by all advertisers, as in other merchandise where service in its use is a necessary part of its sale. This will create a service organization with which other organizations selling service alone will be unable to compete.

Whether the total rate of 15 per cent, now carried in the publisher's price structure for agency service, is excessive may be examined in the tables showing incomes of agency operators and personnel, in

Section V. There is nothing sacred about this rate, and it has varied from time to time, and from 25 to 10 per cent. At all times it has been set primarily by agency experience and has been accepted or rejected by individual publishers as they saw fit.

The question of what is an excessive income in any given case is difficult to answer. That in agency operations there do occur occasional combinations of circumstances which produce incomes which might be called excessive is probably true. That the agency structure as a whole, or on the average, tends to produce excessive incomes for its personnel does not appear true, when the hazards involved, the talents employed, and the contributions made are considered.

The question whether this total cost of 15 per cent could be more equitably distributed among advertisers is a pertinent one. It appears clear that any attempt to distribute it by a so-called "sliding scale" based on volume alone would produce at least as many inequities as the present method. As between two advertisers, each expending $100,000, one would still need, demand, and get more service than the other. Likewise, any attempt to distribute these costs on the basis of pieces of advertising material prepared, and other service factors, is defeated by the variable factors in each individual agency's costs. Only by offering the advertiser a service in which he chose which services he would buy, and what quality of skill in those services he wanted, could a charge more nearly approximate to the cost of each advertiser's service be made. Under such a method of charging some advertisers would gain immediately and currently. But such a method would also return agency service to a price-competitive basis, with the deterioration in that service which has always resulted from agency-price competition. It would reduce the agency's freedom to create and protect advertising and to judge what services were needed to do this. This would result eventually in a lower volume of advertising and a higher advertising rate or it would throw back on every individual publisher a creative cost which would inevitably appear again in his rate structure.

There does not appear to be any other basis for agency charges than the one now made as long as the promotion necessities of publishers call for the maintenance of a pool of service for all advertisers

and all publishers. So far as the individual advertiser and individual publisher is concerned, the cost of this service would appear to be an item of unallocatable overhead which can only be distributed more or less arbitrarily in proportion to volume.

There remains only the question whether from the distribution of these costs, by the general rules above, the small group of advertisers with expenditure exceeding $1,000,000 on a single product should in any degree be exempt.

In advertisers of this class there is the same difference of opinion about agency compensation as is found in other cases. Some are entirely satisfied with it in their own case; some are not.

There seems to be a widespread suspicion that most of the very largest advertisers place their business at less than card rates. All the evidence is to the contrary.

What is true is that the very large advertiser receives a quantity and quality of service, collateral and direct, in excess of that received by most advertisers. He often receives without extra charge collateral services for which other advertisers pay, and sometimes receives these in large degree. He always receives the maximum abilities of the agency personnel.

This type of advertiser also usually receives the most valuable, though intangible, contributions which agencies make. With few exceptions, such advertisers are in the group whose products are most dependent on the creation of selling ideas expressed in advertising copy. The highest type of advertising skill is exerted in their behalf.

The rate of net profit on these accounts is high and the rewards therefrom to the ablest agency personnel are high. Some advertisers consider these rewards too high for what they receive; some equally large advertisers do not. The difference in views seems to depend largely on how an advertiser values the intangible quality factors in advertising service, for which no standard of measurement is possible.

Because such advertisers are few in number and do not represent a very high percentage of the total advertising volume, it is probably true that some modification could be made in the distribution of service costs to them without seriously impairing their own direct service or the service to advertisers as a whole.

But it must be pointed out that there are many smaller advertisers whose accounts produce as high a rate of net profit, and who on other grounds than volume have as good claims for relief from part of the general cost burden. Further, that large publishers can equally claim the justice of carrying a lower percentage of the service costs in their rate.

It would seem that the flat rate, in which all publishers and all advertisers carry in proportion to volume a share of the total direct and indirect costs of the advertising service structure, is either right for all advertisers and publishers or wrong for all.

The conclusion of the examiner is:

That the method of advertising agency compensation now in force is the most practicable one for maintaining the true and long-run interests of all advertisers and all publishers.

That the rate of compensation is not excessive for the structure as a whole.

That all advertisers and publishers should bear, in proportion to volume, a share of both the direct and the indirect costs of the structure.

APPENDIX

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APPENDIX

AGENCY TERMS

Date _____ *19*____

Reserving to THE CURTIS PUBLISHING COMPANY the right at any time, upon written notice, to annul or change the conditions of this agreement, we will hereafter, and until further notice, accept orders from you for advertising space in THE LADIES' HOME JOURNAL, THE SATURDAY EVENING POST, THE COUNTRY GENTLEMAN, or any other periodicals controlled by The Curtis Publishing Company, on the following terms:

FIRST: Orders will be accepted only when made out at full gross rates without stipulation of agency commission or deduction.

SECOND: Subject to and upon the terms hereof, bills will be rendered to you monthly, subject to fifteen per cent. (15%) agency differential and two per cent. (2%) cash discount (figured on the net amount).

THIRD: This agency differential, in the case of each advertiser, is conditional upon our being satisfied that you have been and are rendering adequate service calculated to develop his business, and further upon our being satisfied that you are charging the advertiser gross rates on all our advertising. We will not be so satisfied, however, and will make no allowance if we conclude you are charging rates on any periodicals in such way as inures to our disadvantage in the matter of our own rates. You are not to make any charge to any person in such way as would, in our judgment, directly or indirectly, injure our business or interests. The expression of our dissatisfaction in any particular shall be final. But we will gladly alter our decision in any particular case if you are able to make us an explanation which will satisfy us.

FOURTH: This Agency differential is further conditional upon your agreement not to charge less than the current gross rates on all advertising in the Curtis Publications, nor directly or indirectly make any allowance or rebate, the effect of which would be to charge less than full current card rates.

FIFTH: The cash discount of two per cent. (2%) will be figured on your net bill, and will be allowed only upon condition that payment is made by you in full during the month in which the bill is rendered. You may allow a cash discount of two per cent. (2%) on our gross bill to you for space, to your clients, provided they pay (your bill) during the month in which we bill you, and only upon this condition.

Signed by _____

Advertising Director

For THE CURTIS PUBLISHING COMPANY

The foregoing expresses the understanding with The Curtis Publishing Company under which the undersigned acts.

Signed by _____

_____ *City or Town* _____ *State*

Acknowledged before me this _____ day

of _____ 19___

Name _____

Address _____

Date Commission Expires _____

1021A

General Agency Report

to the

Periodical Publishers' Association

OF AMERICA

10 East 40th Street, New York City

Date _____

Name _____

Address _____

Individual, partnership, or corporation? _____

When did agency begin business? _____

Balance Sheet Showing Condition of Business on _____ 19___

ASSETS		
Current Assets		
Cash in Bank ____ $____		
Office Cash Fund		
Time Cash Deposits		
ACCOUNTS RECEIVABLE		
A—Discount date within next 30 days ____ $____	XXXXXX	XX
B—1-15 days past discount date	XXXXXX	XX
C—15-30 days " " "	XXXXXX	XX
D—Over 30 days " " "	XXXXXX	XX
TOTAL ACCOUNTS RECEIVABLE	XXXXXX	XX
Less Reserve (explain how arrived at)		
U. S. Government Securities (not hypothecated)		
Listed Securities—Market Value (not hypothecated)—attach list		
Unlisted Readily Marketable Bonds (not hypothecated)—attach list (must be accompanied by evidence of ready marketability)		
Cash Value Life Insurance (agency beneficiary) ____ $____	XXXXXX	XX
Less Loan		
Current Billables Pending (Expense incurred at client's authorization, to be billed and collected within next 30 days)		
TOTAL CURRENT ASSETS		
Invested Assets		
Notes Receivable—Customers (attach list)		
Notes Receivable—Others (attach list)		
Hypothecated Securities ____ $____	XXXXXX	XX
Less Loans		
Securities (not under Current Assets)		
Real Estate—Appraised Value	XXXXXX	XX
Buildings—Appraised Value	XXXXXX	XX
TOTAL	XXXXXX	XX
Less Mortgages or encumbrances		
Furniture, Fixtures, etc.	XXXXXX	XX
Less Depreciation Reserve		
TOTAL INVESTED ASSETS		
GROSS TANGIBLE ASSETS		
Nominal Assets		
Personal Accounts and Notes Receivable (From owners or employees)		
Deferred Charges		
Deferred Billables Pending		
TOTAL NOMINAL ASSETS		
TOTAL ASSETS		

LIABILITIES		
Liabilities		
Accounts Payable—Media		
Accounts Payable—Others		
Notes Payable—Banks		
Notes Payable—Media		
Notes Payable—Others		
Other Borrowed Money		
Accrued Taxes		
Reserve for Short Rates		
Dividends Declared but not Paid		
Reserve for Contingencies (attach explanation)		
Accrued Salaries, Commissions and Bonuses		
Notes Receivable Discounted		
TOTAL LIABILITIES		
Capital Liabilities		
General Surplus ____ $____	XXXXXX	XX
Undivided Profits		
Capital Stock Authorized	XXXXXX	XX
Capital Stock Unissued		
TOTAL CAPITAL LIABILITIES		
TOTAL LIABILITIES		

I certify that to the best of my knowledge and belief the above financial statement is correct.

Signature of Principal _____

RECORD OF CLIENTS USING NATIONAL MAGAZINES

(If space is insufficient, attach separate sheets)

Type of Product	Name of Client	Address	*Nature of Advg.	How long have you handled account?	Did you originate?	Expenditure 19_____	Appropriation 19_____	Names of National Magazines on present approved schedules

RECORD OF CLIENTS USING OTHER MEDIA THAN NATIONAL MAGAZINES

(If space is insufficient, attach separate sheets)

Type of Product	Name of Client	Address	*Nature of Advg.	How long have you handled account?	Did you originate?	Expenditure 19_____	Appropriation 19_____	Names of publications on present approved schedules

RECORD OF INACTIVE CLIENTS

Type of Product	Name of Client	*Nature of advg.	How long have they been inactive?	How long have you handled account?	When do you expect them to resume advertising?

ACCOUNTS LOST WITHIN LAST TWELVE MONTHS

Name of Client	*Nature of advg.	How long did you handle account?	Who handles account now?	Was any unethical proposal made to you?

*NOTE—When filling out this column indicating nature of advertising handled, use the following symbols:—M: for Magazines; C: for Class Publications; T: for Trade Publications; D: for Direct Mail, Catalogs, etc.; N: for Newspapers; F: for Farm Papers; O: for Outdoor advertising; R: for Radio.

Name of Partners, Officers	% of Ownership	Full Time to Agency	Part Time to Agency	Names of Account Executives
Pres.				
Vice-Pres.				
Sec'y				
Trees.				

Owners of Business *not* Active in the Work of the Agency

Name	Position or Title	% of Ownership	Present Business Connection and Address

Are any Owners or Employees of the Agency Directly or Indirectly Connected with or Financially Interested in any of the Following Lines of Business:

Line of Business	Yes or No	Name of Individual	Name and Address of Concern	Nature of Connection or Interest
Advertiser				
Publishing				
Printing				
Engraving				
Posting or Outdoor Display				
Adv. Novelties or Signs				
Street Car Advertising				

Give average monthly total billing over period six months_____ Magazines_____%

General magazines now allowing you commissions_____

Have you contract or letter of agreement with clients?_____ If so, enclose copy.

Do you carry credit insurance?_____ What company?_____ Expiration date?_____

Coverage _____ Is this assigned?_____

Does your method of billing call for payment from clients prior to your payment date to publishers?_____

If not, explain exceptions_____

Have you recognition from:

Amer. Newspaper Pub. Assn._____ Agri. Pub. Assn._____ Associated Bus. Papers_____

Signature of Principal_____

QUESTIONNAIRE NO. 1—TO ADVERTISERS

NOTE.—If you have *more* than one advertising agency, please answer for each agency, thus:

Agency 1: .....
Agency 2: .....

1. How does your agency bill you
   a) For space in publications allowing an agency commission of 15 per cent?
   b) For space in publications allowing an agency commission of less than 15 per cent?
   c) For space in publications allowing no commissions?
   d) For radio TIME?
   e) For radio TALENT?
   f) For outdoor advertising?
   g) For investigations and research?
   h) For art work?
   i) For typesetting, engravings, electros, etc.?
   j) For forwarding material and instructions to media?
   k) For preparing direct mail, circulars, booklets, etc.?
   l) For preparing dealer and salesmen's promotion material—broadsides, portfolios, etc.?
2. Does your agency pay the salaries, in part or whole, of any men or women working as part of your advertising or sales departments?
3. Does your agency pay any salaries, fees, or commissions in connection with your account to any person not a regular and full-time member of the agency organization? If so, for what services?
4. Does any member or employee of your firm share directly or indirectly in the profits of your agency?
5. Does any member of the agency staff devote his time exclusively or in large part to sales work for your company without extra charge from the agency?
6. Do you receive in any form what you think would be considered a "rebate" of part of the agent's commission?
7. Into which of the following classifications should you be put by the amount of your appropriation spent through your agency in 1931?
   (Mark with × which group your account belongs in.)

   ..... Under $ 50,000
   ..... Between 50,000 and $ 100,000
   ..... Between 100,000 and 250,000
   ..... Between 250,000 and 500,000
   ..... Between 500,000 and 1,000,000
   ..... Over $1,000,000

Please return to Professor James W. Young, University of Chicago, Chicago, Illinois.

QUESTIONNAIRE NO. 2—TO ADVERTISERS

1. Setting aside the question of compensation, what do you think of the advertising agency as a business mechanism? Is it a necessary or desirable one for you to have available? Would you prefer to handle your advertising without one? Why?
2. What kinds of services are performed for you by your present agency? Which do you value; which do you think are superfluous? Which do you value most? Are there any services you don't get which you think an agency should perform?
3. What kind of relationship exists between you and your agency? Does it have access to your confidential plans and figures? Do its principals have contact with yours? Is it a partner in the promotion of your business or merely a useful mechanism for performing certain advertising functions?
4. Has your agency ever made any important contribution to the upbuilding of your business? What was the nature of it—copy idea, sales plan, merchandise suggestion, etc.?
5. What do you think about agency compensation *in your own case?* Do the commissions earned on your account compensate your agency fairly, excessively, or too little? If you were employing your present agency on a fee basis would you be willing to pay an amount equivalent to the present commissions on your account?
6. Do you think the present method of compensating agencies works to your disadvantage in any way with your present agency? If so, how?
7. Have you ever had experience with a "cut rate" or "house" agency? What was the result of it?
8. What functions, if any, do your advertising manager and department perform which are duplicated by your agency, or which your agency is equipped to duplicate? Why do you feel such duplication desirable?
9. Into which of the following classifications should you be placed by your *1931* expenditure through your agency?

Under $50,000	Between $250,000 and $500,000
Between $50,000 and $100,000	Between $500,000 and $1,000,000
Between $100,000 and $250,000	Over $1,000,000

10. What is the position of the man answering these questions? (It will be helpful to have your firm name also. If you prefer not to sign your answer please state the nature of your industry—as grocery, electrical, etc.—and how long you have been advertising.)
11. Add any general observations you may care to make on any phase of the advertising-agency question.

Return answers to Professor James W. Young, School of Business, University of Chicago, Chicago, Illinois.

QUESTIONNAIRE TO AGENCIES

Please mail anonymously to

JAMES W. YOUNG

UNIVERSITY OF CHICAGO, CHICAGO, ILLINOIS

1. Taking your total volume of billing for 1928 as a base of 100 per cent, what was your volume in percentages of this for the following years:

1929	1930	1931	1932
.....%	.....%	.....%	.....%

2. What percentage of your total volume of billings was the combined agency earnings of all your principal owners in the following years (computed as shown below):

1928	1929	1930	1931	1932
.....%	.....%	.....%	.....%	.....%

EXAMPLE: *How to compute answer to above* (do not report these dollar figures. Report only, under 2 above, final percentage figures):

Define "principal owners" as all those individuals who in each year carried the major responsibilities and risks of management, and whose share of profits was an important part of *their* total agency income.

For these individuals, combined, add dollar figures as follows for each year: *1928* (other years to be figured in same way):

Salaries or drawing account	$.....	
Bonuses (stock or cash)	.....	
Commissions	.....	
Share of net profits both paid and undivided, for current year	.....	
Other agency income	.....	
Total		$.....
Less—share of net corporate loss (if operating statement showed one) in current year	.....	
Less—6 per cent on share of invested capital	.....	
Total deductions		.....
Net total		$ .....
1928 total billings (Multiply service-fee billings by 6.50)		.....
Percentage "net total" is of total billings (Report under [2] this percentage figure *only*.)		.....%

3. Number of principals included in above: .....

4. What general salary cuts have you made in your organization during the past three years?

1930 .....

1931 .....

1932 .....

5. What were the total agency earnings (all forms of income) of the following individuals not included among principal owners:

	1928	1929	1930	1931	1932
Three highest account executives?					
No. 1	$.....	$.....	$.....	$.....	$.....
No. 2	.....	.....	.....	.....	.....
No. 3	.....	.....	.....	.....	.....
Three highest plan and copy people?					
No. 1	.....	.....	.....	.....	.....
No. 2	.....	.....	.....	.....	.....
No. 3	.....	.....	.....	.....	.....
Highest art director?					
	.....	.....	.....	.....	.....

6. Please show below the group in which your agency belonged, based on your volume of billing, for each calendar year, 1928 through 1932:

Year		Year	
.....	Under $250,000	.....	$2,000,000 to $ 3,000,000
.....	$ 250,000 to $ 500,000	.....	3,000,000 to 5,000,000
.....	500,000 to 750,000	.....	5,000,000 to 7,500,000
.....	750,000 to 1,000,000	.....	7,500,000 to 10,000,000
.....	1,000,000 to 2,000,000	.....	Over $10,000,000

MR. IVY LEE'S QUESTIONNAIRE

The questions asked by Mr. Lee were:

1. Is the present agency system so firmly intrenched in American business practice that every advertiser should avail himself of it?
2. Do you know of any advertisers who place their advertising direct rather than through agencies? Have any of these who place their advertising direct changed from the agency method recently?
3. Do you know of any publications which will accept advertising at net rates to the advertiser direct rather than insisting that the commission shall in all cases go to an agent only?
4. What are the merits—from an advertiser's standpoint—of the existing agency system?
5. What are the merits—from a publisher's standpoint—of the existing agency system?

Summarizing "some of the hundreds of replies received to these questions," Mr. Lee reported (March, 1925):

The replies showed a consensus of opinion to the effect that the advertising agency today fills an important place in American business procedure, and even in the face of some faults attributed to the commission system, is highly valued by both advertisers and publishers.

Large national advertisers, while pointing out details in which agencies were deficient, were almost one in their stated opinions that the advertising agency is of great help to them in their businesses. They feel that individual agencies, through the imagination and thought they have displayed in connection with the sale of various products, have not only justified the commission they received for their services but have, through greatly increasing the use of various products, brought about mass production with the resulting reduction of cost to the consumer. They feel that the concentration of various advertising functions in the hands of the agency reduces the cost of advertising to individual advertisers, and that the outside viewpoint gained from association with agency executives is of great value in the conduct of business.

In answer to the first question, nearly every distributor of standard, widely used merchandise, stated that in his opinion the advertising agency was an accepted part of American business and should be used by advertisers who desire to get the most for their money.

In answering question No. 2, it was stated that the advertisers who place their advertising direct rather than through agencies are in the great minority—not more than ten or a dozen altogether. Only one of these has recently adopted the direct method of placing advertising, while the number of those who do not use agencies is gradually and constantly diminishing.

The answer to question No. 3 by the larger publishers was that net rates to the advertiser are allowed only by a few publications and only on those accounts which have been placed at net rates for many years. Furthermore such net rates are allowed now only on contracts renewed from year to year. . . . .

From the publisher's standpoint—and the publishers almost to a man backed up the agency system—the advantages of the agency come through prompt payment for space, proper handling of details, and, on the whole, better prepared advertising.

ADVERTISING AGENCY SERVICE

A STATEMENT BY THE CURTIS PUBLISHING COMPANY

The purpose of this memorandum is to express the belief of the Curtis Publishing Company in the present system of agency remuneration and to contribute some data from our files.

Others are in better position to say exactly how a given plan would affect specific operations in an agency, but we are convinced that the present system of agency remuneration has worked to the advantage of both advertisers and publishers and that a system which has served all interests well should not be changed unless the superiority of some other plan can be clearly shown.

We believe that the present system should not be condemned if some abuses are discovered. Practically all human institutions have been found to contain some weaknesses, yet where they perform an essential and valuable service, they should be retained and an effort made to strengthen any weak part.

We believe that the system must be judged on the basis of the needs of the majority of advertisers and in the light of the probability of its future accomplishment in maintaining and extending the effectiveness of advertising, and should not be abandoned if exceptional advertisers can function satisfactorily under a different system.

We believe that the agency system has made an outstanding contribution to advertising. We believe that neither in the position which advertising has attained nor in the efficiency with which advertising today operates would advertising be anything like what it is today had it not been for the agency system, and we believe that the amount and method of remuneration are essential elements in the present agency system. We know of no other system which we believe can do so much to maintain and extend advertising interests in the future.

The services rendered by agents may be grouped under five major heads:

ACT AS ADVERTISING COUNSEL

Agencies advise manufacturers as to whether they are ready to advertise, how to go about advertising, and counsel them as to media to be used. We do not wish to minimize the value of this counsel, for we believe that sound advice on media is one of the most important functions of an agency. But we think that much confusion of thought has come about by thinking of agency service chiefly, if not solely, from the angle of service rendered by advertising counsel.

As advertising counselors, agencies render service analogous to legal counselors and hence it seems logical that if this were the only service, they should be compensated like attorneys on a fee and retainer basis. But entirely aside from its service as an advertising counselor, an agency can earn its 15 per cent commission.

In many instances manufacturers, through advice and assistance of our representatives, have decided to advertise and have decided to place their appropriation in one of our publications, yet in all these instances we recommended the employment of an agency and cheerfully allowed the 15 per cent commission for services other than advice on preparedness for advertising and on choice of media. More than 99 per cent of our advertising volume comes through advertising agencies.

PREPARE COPY

Advertising agencies develop copy themes, write copy, suggest and supervise art, designate style and size of type, and prepare layouts. This we consider one of the most important services of an agency. The development of effective copy and effective advertising display has been one of the outstanding accomplishments of modern business. The constant improvement in agency service may be illustrated by comparing early copies of our publications with recent issues.

Our mechanical department is conscious of a great improvement on the part of agency service in the preparation of plates. Up to ten years ago we employed a number of trained engravers solely to improve imperfect original plates and electrotypes furnished by agencies for our advertising pages. After this publisher's service ceased to be necessary, we arranged for outside help on any required treatment of plates. Year by year the volume of such plate work has been diminished until today plates from the advertising agencies require few alterations.

We believe that under no other system which has been suggested would the copy accomplishment have been so great. Two features of the present agency system brought this about—first, the amount of the commission was sufficient to enable employment of talent of a high order; second, strong competition among agents kept the writers alert to do their best. It was unsafe to present anything short of the best possible. Any piece of copy was likely to be criticized by rival agents soliciting the account. Complacency was quickly penalized by loss of the account.

RECOMMEND AMOUNT OF APPROPRIATIONS

Many agents courageously recommend and fight for appropriations adequate to do a job. Nothing sells advertising better than advertising itself; and there is no surer way for an advertising account to shrivel and disappear than for an agent to yield to suggestions of the advertiser for inadequate appropriations. To get adequate appropriations, an advertising agent is in a much better position than the company's advertising manager. The advertising manager is an employee, frequently not on the Board of Directors. He must not make unacceptable suggestions; he must take orders or quit.

The advertising agent, as an independent business man, stands more on terms of equality with the principals of the corporation. The agent has a professional standing at stake; he cannot afford to accept suggestions from an advertiser that may lead to failure with consequent discredit to the agency. Many agents have stood firm and lost accounts rather than accept suggestions which they believed not in the best interests of their advertisers.

HANDLE CREDIT

In our opinion, the advertising agencies are responsible for maintaining a fine credit structure for advertising. That they have done this exceptionally well may be illustrated by the fact that the credit loss of the Curtis Publishing Company, based on millions of dollars of annual billing, has been inconsequential over the past twenty years.

During the current business depression and in the face of a tremendous reduction in billings, our recognized agencies were prompt in reorganizing and in reducing overhead. As a result, the agency field probably enjoys an unexcelled record in the number of business failures occurring during the past three years.

That some advertisers may not be interested in the credit feature is beyond the point. Advertising volume, based on more than a thousand accounts, demands effective credit handling, and the agencies have proven their ability to perform this function well. It may be added that the success with which advertising agencies have handled credits has contributed to lowering the costs of advertising.

RENDER SUPPLEMENTAL SERVICES

Many agents render valuable service by study of markets, by assisting with merchandising counsel, by analysis of product, by suggesting improved packaging, by offering help in gaining distribution, by preparing portfolios for merchandising the advertising, and by attending and helping at sales meetings.

In rendering these services, the agency has the unique advantage of being enough of an outsider to have a detached point of view and at the same time to have fairly complete inside information and a thoroughly sympathetic attitude toward the concern. Furthermore, the agency brings to the problem of a particular advertiser experience gained in working with other advertisers and other industries.

The importance of the various forms of agency service from the standpoint of advertising as a whole and from the standpoint of the publishers is better realized when one takes into consideration the number of accounts and the number of advertising agents which will be affected by any change in the agency system.

NUMBER OF ADVERTISERS

The number of advertisers using Curtis publications in 1918 was 1,605, of whom none placed more than $500,000, and 1,493 placed less than $50,000. In 1930, 1,374 advertisers used Curtis publications, of whom 3 placed more than $1,000,000; 14 others placed more than $500,000 and 1,049 placed less than $50,000.

The number of agents handling these accounts increased from 265 to 400. Agents placing more than $1,000,000 increased from 4 to 16; agents placing less than $250,000 increased from 239 to 352. The 16 agents who in 1930 placed more than $1,000,000 represented 352 accounts, of which more than half placed less than $50,000.

NEED FOR ADEQUATE AGENCY REMUNERATION

From the standpoint of the publishers, it is essential that all the agency services be well performed and that every advertiser have opportunity to get competent service. It is therefore necessary that an adequate provision be made for remuneration. In an early day it appeared the best solution for the publisher to allow a discount from card rate. The same commission was extended to all recognized agencies that every advertiser might be able to have the best in agency service.

Every advertiser who succeeds is an asset. Every advertiser who fails is a liability and deters others from advertising. The effect of an advertising failure is much the same whatever the reason. Poor product, poor copy, poor distribution, poor selling, wrong media—it makes no difference which—the failure is charged to advertising. It is therefore essential from the publisher's standpoint that every effort be made to have all essential factors right. The best assurance of advertising success is for each factor to measure up to the best of competition.

The advertiser, in the great majority of cases, is incapable of doing for himself all that needs to be done. For the publisher to do this work would involve the necessity of building up of vast service organizations quite beyond the dream of present publishers' operations. The practical answer has been found in agency service, with a commission paid by the publisher out of his card rate.

This discount is not a brokerage fee—it is payment for service. It is made in the belief that improvement in copy and assistance rendered the manufacturer would make advertising more successful. In the final analysis the publisher pays this commission to insure himself against advertising failures and to produce advertising successes. The results appear to us to have demonstrated the wisdom of this plan, and we believe that in view of the agency accomplishment for sound advertising, 15 per cent commission is justified.

EFFECT OF COMPETITION AMONG AGENCIES

If it be argued that agents stimulated by a desire for commission may be led to make recommendations not in the interest of the advertiser, it may be replied that this tendency is effectually held in check by competition. Any wastefulness or extravagance on the part of an agent immediately subjects his accounts to a barrage of agency solicitation.

An agency can grow only by holding accounts and by adding new ones. Advertising successes and satisfied advertisers are essential. Hence, sound judgment must prevail over desire for commissions.

PROBABLE EFFECT OF CHANGE IN AGENCY SYSTEM

Furthermore, it needs to be said that if the agency system be changed, publishers will need to do various things now done by the agencies. In the first place, publishers will find it necessary to establish extensive credit bureaus.

Under the agency system, the publisher requires every advertising agent to submit from time to time a statement of earnings and net worth. To many agents, credit with publishers is essential. Without it an agent cannot command

the respect of his clients. Hence, agents submit the financial statements requested and heed warnings of financial danger which publishers may point out. The financial structure of an advertising agency is not complex and is readily understood from the statements submitted. Thus, an efficient handling of agency credits is rendered simple and inexpensive.

With a change in the agency system, publishers would be obliged to pass credit judgment on more than one thousand accounts in a wide variety of industries. The publisher could not require from advertisers such statements as he obtains from agents, and even if such statements were furnished, they would show such varied financial set-ups that it would be difficult, if not impossible, for one organization to understand them thoroughly. Hence the publisher would incur considerable expense in establishing a credit bureau, and in addition, would inevitably have to absorb a consequential volume of credit losses.

In the second place, the development of advertising accounts devolves largely upon the agencies. Many advertising agencies have done much development work, i.e., have found advertising prospects and put considerable time in working with the prospect to get the product right and the distribution right, so that the prospect may be able to advertise profitably. If the agency system is changed, this development work will fall on the publishers, necessitating the formation of large organizations.

It seems probable, in view of increased costs of developing and building business, of maintaining credit departments and absorbing credit losses, that if the agency system be changed, publishers will not be in a position to grant 15 per cent reduction to advertisers.

It is a truism that nothing pays better than successful advertising and that nothing is a more complete loss than unsuccessful advertising. If an advertiser spends $1,000,000 in advertising, a fee of $150,000 may seem large; yet if the $1,000,000 is so expended as to produce success, $150,000 is not too much to pay for success. On the other hand, any amount that may be saved out of $150,000 at the risk of lessening the effective use of the $1,000,000 will be poor economy.

Whenever we see a concern which has grown so prosperous with the assistance of advertising that it is now able to spend $1,000,000 or more a year in advertising, we cannot escape a conviction that the advertiser did not pay too much for the agency service which helped him attain this position in American business.

Wholly apart from a thought of continued remuneration in recognition for past development expense incurred by the agency and wholly apart from a thought of further reward for having added millions of value to the company's good-will, we believe the advertiser who has a business justifying expenditure of $1,000,000 or more in advertising can well afford to pay 15 per cent for agency service, partly to insure the maintenance of the exalted good-will position which has been attained and partly in expectation that the policy which made him great may be able to make him greater.

COMMENTS OF A PUBLISHER ON THE ADVERTISING AGENCY AND AGENCY REMUNERATION

The advertising agency came into existence because publishers early saw the need of, and were willing to pay for, a necessary service to the advertiser and prospective advertiser, which in turn would be of great benefit to the publisher.

Experienced men to guide and assist and therefore avoid the mortality of advertisers, and to sell the value of advertising to non-advertising concerns were needed. Certainly no early advertiser would have paid anyone for advertising advice in addition to his space rates.

It was profitable to the publishers to pay to develop such experienced men out of the revenues they received for their space.

This was the basis for the advertising agency remuneration system; and this is the basis for it today.

The results over a period of years have been:

1. Bringing into the advertising agency business the best type of business men.
2. Building of sound experienced organizations of ability and integrity, available to any and every advertiser today.
3. Effective use of advertising through the guidance and counsel of these organizations.
4. Selling the advantages of advertising to hundreds of companies who never would have discovered its value or proper use.
5. A very large increase in advertising lineage, over the years, resulting in constantly lower cost per thousand circulation for advertising space.
6. A regulatory system through advertising agency recognition which has prevented the inexperienced and incapable and the dishonest from setting up as advertising agents—which almost completely has eliminated the business pirate and helped to place the entire business on a high plane of ethics.

If the present system of remuneration is changed to one which is some arrangement between agent and advertiser, the following is sure to result:

A. The publisher will be saved the paying of the commission to the agent *but he will not be able to cut his rates to that extent, if at all.* He may find it necessary in time to increase rates because:
   1. He will have to develop a more extensive organization to promote new business—to sell non-advertisers who can and should advertise, and to sell many old advertisers the advantages of increased advertising.
   2. He will have to develop more organization to *service* the advertisers who are sure to attempt to advertise without agent advice, thus to avoid the heavy mortality which will result among the new and inexperienced.
   3. He will have to assume all credit risks, now well controlled through agency recognition. Under the present system, the agent who does not watch his credits and does not pay his bills for space loses recognition.
   4. The publisher will have to co-operate with someone to see that unqualified men do not set themselves up as advertising agents. In other words, he will have to assist in some other method of regulation and recognition control. The state protects us against bogus lawyers and doctors. Someone must protect the advertiser and the publisher against bogus advertising agents.

When the publisher's fixed compensation for the agent is eliminated, agents will immediately be compelled to compete on price rather than ability.

The cases of excessive remuneration to agents, because of size of appropriation and character of service, are so few and far between that they cannot serve as a basis for a new system. We cannot hope to eliminate additional remuneration for additional ability and additional billing in the agency system any more than we can eliminate it from American business, where it is rampant—and incidentally, is the stimulus for most worth while effort.

LEE W. MAXWELL, *President*
Crowell Publishing Company

THE PRESENT AGENCY COMMISSION SYSTEM FROM THE POINT OF VIEW OF ONE PUBLISHER

In considering the relative merits of the present agency fifteen per cent commission system, the question largely resolves itself, considered from the point of view of the magazine publisher, as to whether or not the fifteen per cent system has been responsible for the concentration of the advertising agency business into comparatively few hands; and if it has been responsible for that fact, what is the advantage or disadvantage to the publisher.

It can be stated, in the first place, with a reasonable degree of certainty that the fifteen per cent system has been of great benefit to the publisher in the case of the small agency. The small agency is of vast importance to the publisher for two reasons—(1) It tends to develop new brains and a new point of view in the agency business. It brings along agents who will ultimately be larger agents and thus perpetually tends to keep advertising thinking fertile. (2) The small agency is of great importance because the large agency either is likely to prove uninviting to the small account, because that small account would be such a small part of the agency's volume, or, what is more frequently the case, the large advertising agency is usually not interested in the development of small new business. The large agency ordinarily takes part in developing new small volume products only when those new products are owned by an already potent client.

Conceding that the development of new business is vital to the publisher; conceding that large volume accounts very often start as small volume accounts; conceding that some of the best large agencies have developed from small agencies; and conceding that some of the best brains in large agencies were developed in the small agency, where people have a chance to practice all phases of the advertising agency business, instead of the frequently highly specialized work that they do in large advertising agencies, we conclude that the present fifteen per cent system is good for the development of small agencies, because it makes it possible for the small agency to make at least a modest profit.

In assuming that the fifteen per cent system is the thing that enables the small agency to make a profit, we must take the past as a criterion for the future and assume that the smaller the advertiser the less apt is that advertiser to be willing to pay the price for good advertising. The small advertiser, more often than not, by his very lack of experience, cannot understand the way his chance for success is improved by the employment of capable advertising people. This has been established over and over again in many different ways. Small companies tend to consider the advertising manager's job as a nice place for their grandsons. They very often get the quaint idea that the president of the company or the treasurer is a good copywriter. Advertising is the kind of activity that encourages the amateur to think himself competent. The fifteen per cent allowance by the publisher tends to make the cost of a higher grade advertising service more painless, and hence more likely.

Having concluded that the small agency is a desirable element, from the

point of view of the publisher, the question is reduced to a consideration of the large agency, with its almost universal practice of becoming highly departmentalized.

The recent growing importance of the large agency is indicated in the accompanying table.

	Volume of Principal Magazines	Share from 25 Leading Agents	Per Cent
1927	$154,874,327	$ 85,530,938	55.2
1928	155,270,832	89,251,411	57.5
1929	161,649,303	97,533,718	60.3
1930	157,737,188	100,958,041	64.0
1931	126,694,353	82,378,039	65.0
1932	86,626,781	60,603,562	70.0

There are very decidedly two sides to the question from the publisher's point of view as to whether or not the large agency is a good thing for the publisher. This opinion will cite disadvantages, but will conclude that the advantages outweigh the disadvantages, that the disadvantages are not necessarily the result of the fifteen per cent system, and that those disadvantages might be even greater in the event of a net rate system or a sliding scale commission system.

It cannot be stated that the large agency is a product of the fifteen per cent system. If agency service were like a commodity, there would be a tendency for the large agency to become even larger with a sliding-scale commission or a flat rate. Therefore, our concern is the part that the fifteen per cent commission system has played, not in making an agency large, but in determining the type of service it renders and the way it has affected the agency operation.

Probably there can be no denying that large agencies have made more money with the fifteen per cent system than they would have made on either a flat-rate or a sliding-scale commission basis. Certainly the fifteen per cent has proved an incentive for developing volume—and hence of a complete all around agency service. From the publisher's point of view, the only way to measure the effect of the present method of operation of the large agency is in terms of reduced publisher's selling expense, or increased volume or in the stability of that volume. These factors have in turn a very direct bearing on three things in which both the publisher and the advertiser are interested—(1) the improvement of advertising media, (2) rates, and (3) stability of media.

The large advertising agency more often than not is organized by functions—it has a copy department, a research department, a media department, a radio department, an accounting department, a new business department and contact department, and so forth. The advantages to the publisher of this departmental system are as follows:

When an agency functions at its best, the advertising program is based on thorough field research, the best possible copy, good merchandising plans, good

advertisements and skilfully selected media, all of which contribute greatly to improved chances for success.

When the space department is adequate, when the advertiser and agent know exactly what they are doing and what their objectives are, the selling expense of the publisher is greatly reduced.

The advertising agent has all the facilities for developing large new advertisers, even though it infrequently undertakes the task of launching small new advertisers.

When the buying of space is concentrated in orderly and capable space departments, not only is selling expense reduced, but the publisher finds a greater stability to his volume, due to the fact that the continued experience and functioning of one group on space buying tends to eliminate whims in buying and to eliminate the old-fashioned favoritism in buying. It very decidedly tends to eliminate the expensive social aspects of publishers' selling and substitutes factual presentations.

When an agency is large, it is better able to withstand the shocks of the ups and downs of commercial cycles. The building trades may be down, while food advertising stands up. This tremendously affects the interests of the publisher, both in the matter of credits and in the insurance that capable men will find stability in the agency business.

The development of research departments in large agencies has tended to take the expense of such research work out of the hands of the publisher, thereby reducing selling expense.

The disadvantages to the publisher of a large agency with its highly departmentalized set up are as follows:

When an agency creates a media department not in keeping with a publisher's idea of what it should be, the publisher feels called upon more than ever to sell various other factors in the agency, so much so that the expense in that case is even greater to the publisher, either properly or improperly, than it would be were there no space department at all.

When the large agency, as it usually does, makes a recommendation to the client which includes copy, merchandising plan, and space, the publisher finds his chance of influencing the advertiser reduced to a minimum. Under ideal conditions, with a skilful space-buying department, this is an advantage to the publisher, but many times it is greatly to the publisher's disadvantage to be kept at arm's length from the advertiser.

With large agencies, there is very often extreme danger to the publisher resulting from the concentration of power in a few hands. Often the agency abuses that power and tries to hold over the publisher the club of the agency's entire volume, in order to force points on each individual account. This might conceivably be an advantage to the advertiser, but is a great disadvantage to the publisher in his endeavor to deal with advertising accounts as advertisers and not as part of agency volume.

In large agencies there is a tendency to put space buying into an inferior posi-

tion as a function of that agency. Very often the space buyers are people who have grown to that position with only the experience of having risen to it through clerical duties in the space department. Such a lack of experience is likely to make judgments mathematical rather than well-founded opinions based on broader views of publishing principles.

The large agency within the latitude afforded by the fifteen per cent commission has developed radio departments, trade paper services, outdoor board departments, publicity departments which have been competition for the magazine and newspaper publisher. These often unprofitable departments are in effect subsidized by the publisher's own fifteen per cent. The disadvantage to the publisher is immediate; but it might reasonably be concluded that in the long run anything which developed successful advertising was an ultimate advantage to the publisher.

CONCLUSION: The present fifteen per cent agency plan is an advantage to the publisher in the case of the small agency. It is an advantage in the case of the large agency but brings some disadvantages.

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